

NEWS: EUROPE

West sets tough military goals in Bosnia

By Bruce Clark in London,
David Buchan in Paris and
Harriet Martin in Sarajevo

Western governments have sketched out a formidable - and to some observers unrealistic - range of objectives as they prepare the despatch to Bosnia of a new rapid reaction force that will vastly increase the firepower of the UN peacekeepers.

According to a list of "talking points" that was issued to the media after the weekend meeting in Paris of 15 western defence ministers, there was general agreement on a series of goals whose achievement could transform the Bosnian confrontation.

They include:

- The regrouping of isolated UN units, though not apparently the hard-pressed garrisons which stand guard over the Moslem safe areas;
- The total removal of all heavy weapons from the exclusion zones of Sarajevo and Gorazde;
- The reopening of access to Sarajevo, by land and air;
- Freedom of movement for the UN protection force, particularly to the Moslem safe areas;
- Helping the UN to "sustain the availability" of Nato air support.

This is a very ambitious set

Main points of the Paris decision

- Total rapid reaction force of 9,000 to 10,000 under the command of Generals Bertrand Javie of France (UN commander in former Yugoslavia) and Rupert Smith of Britain (the UN commander in Bosnia);
- An all-British air-mobile brigade of 5,000; A multinational brigade including 1,000 UN troops (mainly engineers and signallers); 1,500 French soldiers and 300 Dutch marines with mortars
- US to provide airlift and close air support; attack helicopters; navigation systems; intelligence units
- Other help expected from Denmark, Germany, Italy, Norway, Spain and Turkey
- Missions to include - regrouping isolated units, closing heavy weapons collection points; resupplying outposts in Moslem enclaves; clearing air and road access to Sarajevo



as an imperfect way of taking heavy armour - in which the Serbs have a near monopoly - out of circulation.

The total removal of heavy weapons from the Sarajevo area, as mooted in Paris, would transform the military balance in the Bosnian capital. It is hard to see how it could be achieved except by the use of draconian force, or as part of some broader agreement on demilitarising the city.

British and French officials were at pains yesterday to play down the more ambitious parts of the Paris agenda and stress that the overwhelming priority of the new forces was to safeguard the UN's own safety.

A senior British official said yesterday that even after the 10,000-strong rapid reaction force was in place, the UN mission would still have to conduct negotiations over access to the safe areas and the opening up of road and air routes to Sarajevo.

In Paris, a senior French defence official had a similar message. "There is no question of giving the new force by itself the job of assuring the safety of Sarajevo, or clearing corridors from the Bosnian capital west to the coast or access eastwards to the [Moslem] enclaves."

"These remain general objec-

tives of Unprofor, of which the rapid reaction force will just be the servant," he explained.

Mr Charles Millon, the French defence minister, told French media that the two new brigades, operating under UN command but in national uniform, was designed to be "a deterrent force to avoid acts of barbarism... it will be able to carry out combat missions to allow the blue helmets [of Unprofor] to implement their peacekeeping role".

For his part, Mr Malcolm Rifkind, the UK defence minister, stressed that though "this is the first time in the history of the UN that such a rapid reaction force had been created... it would not change the nature of the UN presence". The force's creation would "not bring the UN any closer to being a combatant" in a crisis which "still requires a political solution", the UK minister said.

The French defence official drew attention to the fact that in Saturday's communiqué the only formal definition of the Rapid Reaction Force's role was "to carry out missions to enhance the humanitarian operation of Unprofor and to assist in the proper execution of its mandate". Such missions might be include protecting freedom of movement and coming to the rescue of a convoy under

attack, the official said. This is why the Franco-British authors of the Rapid Reaction Force plan believe it can operate within existing UN resolutions.

President Jacques Chirac telephoned Mr Boutros Boutros Ghali, the UN secretary general, after Saturday's meeting to brief him on the new plans, which are expected to be the subject of some blunt exchanges this week between western governments and the UN secretariat.

UN officials said yesterday their organisation would welcome the reinforcements as long as they were deployed in a way that was compatible with peacekeeping, to "increase the range of options" available to UN commanders.

One said the UN mission in Bosnia could only use the reinforcements effectively if the Contact Group or some other international body created a "political framework" within which the UN could seek to mitigate the conflict.

Mr Boutros Ghali has pressed the Security Council to choose between a lightly armed humanitarian operation or else a tough multinational intervention force which would fall outside the UN peacekeeping structure. The Paris decision falls squarely in the middle of these two options.

EUROPEAN NEWS DIGEST

Hungary hopes for IMF deal

The International Monetary Fund will help Hungary's difficult transition to a market economy with a stand-by loan, the Hungarian prime minister, Mr Gyula Horn, said yesterday. "We will first sign a statement of accord, then a stand-by loan agreement will come soon," Mr Horn said before leaving to begin a visit to the US, where he is expected to meet the IMF director, Mr Michel Camdessus. "By the end of this year I expect we will sign a three-year loan agreement," he added.

Hungary, which has substantial foreign debts, has been trying for years to conclude a long-term agreement with the IMF that would help Budapest obtain loans both from the Fund itself and possibly from other lenders on better terms than it can get now.

The government's austerity plan, which won praise from the IMF, was essential to try to bring some balance to public finances and show the international financial institutions that Budapest was on the right track.

Mr Horn made it clear that he views the IMF accord as a direct response to the austerity plan, which cut into the prime minister's standing in opinion polls and strained relations between his Socialist party and its trade union allies.

Hungary's net foreign debt stood at \$20bn (121.7bn February) and its debt rating is below investment grade, excluding it from borrowing from many pension and investment funds.

The IMF froze a standby accord in 1992 after it became clear that Budapest would overshoot its required budget deficit target.

Reuter, Budapest

Costs worry German companies

German entrepreneurs are the most concerned in Europe over the competitive damage caused to their companies by employment costs and the power of their customers to drive hard bargains, according to a report* published today.

Managers of small and medium-sized companies in the other five countries surveyed - France, Italy, the UK and Spain - fear the strength of their competitors rather than customers, says the report from 3i, the UK venture capital company.

Seventy-three per cent of German managers said that the costs of employment, the social costs, made the company less competitive. The equivalent figure in the UK, which was at the other end of the scale, was 53 per cent.

Manufacturers from the six countries felt the effects of social costs most, with those in transport feeling it least.

All managers said competition from Europe was the most important, followed by the US. UK managers, however, rated European competition less important than did their counterparts in continental Europe.

*Competition in Europe, 3i European Enterprise Centre, NB House, Stilebrook Road, Orléans, Bucks, MK46 5EA, UK

Bonn to improve Prague ties

Germany will step up efforts to improve relations with the Czech Republic and draw up a treaty which will finally resolve a series of disagreements dating from the Nazi occupation between 1938-45. Mr Klaus Kinkel, Germany's foreign minister, said yesterday.

After several years, when both sides have tried to manoeuvre closer to each other, Mr Kinkel said a breakthrough was approaching. "The people of the Czech Republic can rely on the fact that in the next weeks we will find an acceptable solution which will do justice to both sides," he told 20,000 people at the annual rally of the Transylvanian Saxons - descendants of ethnic Germans who had lived for several centuries in Transylvania.

Relations between the two neighbours are particularly topical at this time of the year during the annual rallies of Germans expelled from eastern Europe after 1945, including about 3m Sudeten Germans who used to live in parts of the present Czech Republic.

Michael Lindemann, Bonn

Norway hit by heavy flooding

Nearly 6,000 Norwegian military and civil defence forces were put on alert at the weekend as the country's worst floods in more than a century swept through two counties north-east of Oslo closing roads and railways between the capital city and Trondheim.

The floods were caused by later than normal snow combined with high spring temperatures and heavy rains.

Meteorologists forecast similar weather in the next few days.



A church surrounded by flooded land north-east of Oslo.

Only one person is known to have died in the floods but there has been widespread damage to property and newly planted spring crops. Dyno Industrier, the Norwegian chemicals and explosives group, was forced to temporarily close its largest domestic chemicals production facility at the Lillestrom Industrial Centre.

The last natural catastrophe to hit Norway was in 1992 when a hurricane swept the north-west coast causing damages of an estimated Nkr1.5bn (£151m).

Karen Fossli, Oslo

Italian inflation increases

Italy's annual inflation reached 5.5 per cent in May, the highest level since 1992, according to figures released over the weekend by istat, the official statistics institute.

The official figures confirmed the trend already evidenced in preliminary data from leading cities. The monthly increases was 0.6 per cent, double the same period last year.

Inflation stopped falling last August but the pressure on prices has begun to fall since the beginning of the year which opened on an annualised rate of 3.8 per cent in January. Economists are now predicting inflation could reach 6 per cent by the summer.

The threat from inflation prompted the Bank of Italy to raise the discount rate 0.75 per cent to 9 percent effective as of May 29 and last week Mr Antonio Fazio, the governor, warned more rises could be on the way if the prices trend were not inverted quickly.

Robert Graham, Rome

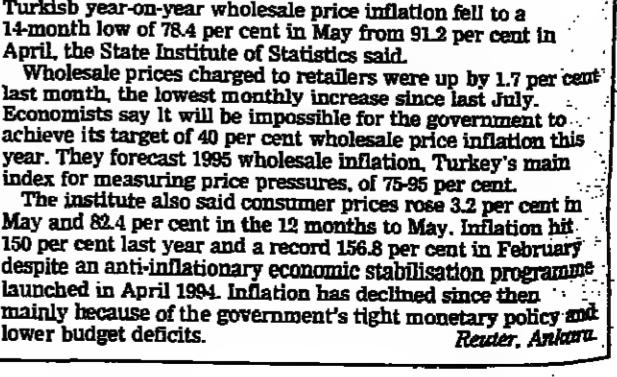
Turkish wholesale inflation falls

Turkish year-on-year wholesale price inflation fell to a 14-month low of 78.4 per cent in May from 91.2 per cent in April, the State Institute of Statistics said.

Wholesale prices charged to retailers were up by 1.7 per cent last month, the lowest monthly increase since last July. Economists say it will be impossible for the government to achieve its target of 40 per cent wholesale price inflation this year. They forecast 1995 wholesale inflation, Turkey's main index for measuring price pressures, of 75-85 per cent.

The institute also said consumer prices rose 3.2 per cent in May and 8.4 per cent in the 12 months to May. Inflation hit 150 per cent last year and a record 156.8 per cent in February despite an anti-inflationary economic stabilisation programme launched in April 1994. Inflation has declined since then mainly because of the government's tight monetary policy and lower budget deficits.

Reuter, Ankara



A street scene in Ankara, Turkey, showing flooding.

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hopes
deal

EU suffers middle-aged angst

By Lionel Barber in Taormina, Sicily



Countdown to 1996

Like many 40th anniversary parties, there was a touch of middle-aged angst about the weekend celebrations in Messina. It was held to commemorate the conference in June 1965 which laid the ground-work for the European Economic Community.

This was not the fault of the Italian hosts. They provided comprehensive hospitality and police security for dozens of Euro-dignitaries, including a spectacular Friday night ballet inside the ruins of a Greek theatre, with music from Mahler echoing high above the Sicilian coast.

Now can any blame be attached to Mr Carlos Westendorp, the senior Spanish diplomat? His iron-fisted chairmanship ensured that the second-scheduled event in Messina – the inauguration of the EU to deal with enlargement – to take in the central and eastern European countries, Cyprus and Malta, as well as the Baltic states.

For a Spaniard, whose country risks losing generous EU regional aid once enlargement to the east takes place, this sounds like bold talk. It is. But like most of his partners in the Reflection Group, Mr Westendorp also understands that the spur of enlargement also serves to prod EU governments beyond making only minimal changes to the Maastricht treaty.

These are not challenges which the EU can shrug. Any doubts were soon dispelled on Friday afternoon, as the Bosnian crisis intruded constantly with

news flashes of the fate of the hostages and the shooting down of the US F-15 aircraft. Forty years ago, the founding member states of the EU – France, Germany, Italy and the Benelux countries – came together in Messina to pave the way for the 1988 treaty of Rome.

Mr Klaus Hentsch, president of the European Parliament, offered a timely reminder to all that the founding fathers such as Jean Monnet and Paul-Henri Spaak saw their task in moral as

required to run Union of up to 27 member states. France and Germany speak for most when they argue that some changes are necessary to strengthen EU decision-making capacity.

Mr Jacques Santer, president of the European Commission, warns constantly that no change means turning the Union into a free-trade zone and a reversion to Europe of the 19th century – the code for a revival of balance-of-

British position ahead of next year's IGC. Britain opposes any extension of majority voting, he said. Britain wants a greater role for national parliaments rather than an extension of the powers of the European Parliament. Britain wants a more accountable European Commission, and an EU which is more relevant to the people: "This is the ground that favours our arguments."

Britain also wants a more "flexible" Europe. Mr Davis cited the UK's treaty opt-out of monetary union; the UK's non-participation in the social charter; and the principle of mutual recognition rather than Brussels-mandated harmonisation in the formation of the single European market.

This will be the "big British idea" in 1996, though the challenge will be to sell it in positive terms; but it is still unclear if it is enough to secure a deal with her EU partners. The orthodox integrationists fear that such "flexibility" could turn into Europe *à la carte*, a loosening of obligations, and a dilution of the power of the Union as a commercial and political negotiator on behalf of the member states.

Hence the talk in the EU is that there is little chance of an agreement at the IGC until after the UK general election, due by April 1997 at the latest – and a change from the Conservative government led by Mr John Major.

The real IGC bargaining will not start until next spring at the earliest; but it is a measure of the distrust which has grown since the last Maastricht negotiation when Mr Major proclaimed "game, set and match" for Britain.

John Riddington on why many French mayors are not running for re-election next week

Service excluded at hôtel de ville

The prime minister's office is not enough for Mr Alain Juppé. In between crises and on Ronda, he has been on the stump in the south-west pressing his attempt to become mayor of Bordeaux in next weekend's municipal elections.

Mr Juppé is not alone in his quest. Many prominent French politicians are battling for town hall power. Mr Raymond Barre, the former prime minister, is seeking to capture Lyons, while Ms Martine Aubry, the rising star of the Socialist party, is running on the party's list in Lille. Mr Jacques Chirac, the new Gaullist president, made his leap to the Elysée palace from the Paris town hall.

The contests, and the calibre of the candidates, demonstrate the traditional importance of the mayor's office in French political life. "It is a key power base," says Mr Pascal Perrineau, a politics professor at the Sciences-Po (Institut des Sciences Politiques). "If you ask French people which public figure they feel closest to they will probably say their mayor." He adds, referring to the fact that France's 36,000 communes, often based on the parishes of the *ancien régime*, have long formed the foundation of the French political structure.

The communes have also formed a central element in the devolution of administrative and economic activity away from Paris. The decent-



ralisation laws of 1982 and 1983, and a series of subsequent reforms, have brought more responsibilities and more money to the municipal level. The annual budget of Bordeaux is FFr1.9bn (£230m); that of Lyons is FFr3.2bn. And where there is money, there is power.

But in many areas, there is also disenchantment. Despite the high-profile battles for the mayoral posts, all is not well at the hôtel de ville. "We are in a period of crisis," says Mr Jean-Paul Delevoye, president of

is on trial for embezzlement and has renounced plans to stand in next week's election. Several other cases involving the misappropriation of public funds by mayors and municipal officials have highlighted the temptations and the risks of economic decentralisation.

For Mr Delevoye, the problem of corruption is real, but relatively limited. "The big cases tarnish the image of the office," he says. "But the problem is not so widespread." Much more serious, he believes, is the disaffection among mayors, particularly in the smaller municipalities and in rural areas.

Estimated by the AMF suggest that about 40 per cent of incumbent mayors will not stand again for office in the forthcoming elections, a much higher proportion than the usual 20-30 per cent.

The increase is partly due to a higher number of incumbents have reached retirement age. But it is also due to disillusionment. "The attraction of the local official is in free fall," says Mr Delevoye.

The reasons are simple. Mayors have been burdened with greater responsibility and legal risks. But their financial and logistical resources have not kept pace.

The overall grant from the state, which typically accounts for 25-40 per cent of the town budget, rose from FFr65m in 1983 to FFr95m last year, but expenditure has risen faster. As a result, many towns have run up substantial debts

or have been forced to increase local taxes.

It is not just the fiscal charge that has risen. "The administrative load has become too heavy," says Mrs Marie-Anne Gantier, mayor for the past 18 years of Saint-Laurent-en-Mottay, a town of 700 inhabitants in the Maine et Loire department. "We have to be specialists in the environment, in urban and social problems and in pollution."

Like 77 others of the 364 mayors in the department, she will not be standing next weekend.

Many mayors face more serious concerns than Mrs Gantier. A reform of the French penal code, which took effect last year, means that mayors can be personally liable for accidents or violations of regulations resulting in or from municipal properties. This is not an idle threat. About 2,000 local councillors are ensnared in cases ranging from pollution to physical injuries.

For Mr Delevoye, a more immediate danger is the weakening of a pillar of local government at a particularly sensitive time.

The communes and the departments must deal increasingly with serious social issues such as unemployment and homelessness," he says.

To do so, requires committed and competent mayors across the country, and not just in big cities. For Mr Juppé, whether in his Paris or Bordeaux office, that may provide cause for concern.

Schengen strife on friendship bridge

By Judy Dempsey in Görlitz/Zgorzelec

The inhabitants of Germany's Görlitz and Poland's Zgorzelec used to mock the name of the bridge linking the two cities. It spans the River Neisse, the border which demarcated Germany's new frontiers after 1945 and divided this eleventh century city.

Called the "Brücke der Freundschaft" or "Bridge of Friendship", there was little friendship, even among communist comrades. During the Cold War, the borders between Görlitz, in the southern corner of eastern Germany, and Zgorzelec were tightly controlled on

both sides by guards, dogs, watchtowers and barbed wire.

All that changed after the Berlin Wall was torn down in November 1989, followed by German reunification 11 months later and the abolition of visas between Germany and Poland in 1991.

"The change was wonderful," said Mr Ulf Grossmann, the deputy mayor of Görlitz.

"The wall had finally disappeared. People could cross the bridge without hindrance. Contracts and trade started to flourish."

In the first year after reunification, more than 6m people crossed the bridge. By 1992, it had increased to 14m.

But then came the Schengen

agreement. Signed in March between seven European Union countries, and since extended, it allowed passport-free travel between participating nations, including Germany. It also meant that the frontiers between Germany and eastern Europe were tightened to prevent citizens from third countries entering western Europe illegally.

"I am very disappointed with Schengen," said Mr Grossmann. "The delays at the border can take several hours. This is very bad for business. Germans and Poles are losing money because they do not know how long they will have to wait to cross."

It is not only the delays which upset Mr Grossmann. It is the psychological effect Schengen is having on the citizens of Zgorzelec.

"We think the Poles are made to feel like second-class citizens every time they want to cross into Görlitz," he said. "Since German reunification, both sides really tried for better co-operation. Schengen is hindering this."

A short walk across the Bridge of Friendship into Zgorzelec and along the tree-lined Domanskiego street, Görlitz, the city's deputy mayor, Mr Janusz-Lech Górska, says the main impact of Schengen is that the guards have more work. "Between 20,000 and 22,000 people cross the bridge each day. We got 26 extra guards in March. We now have 168 people. We will get an additional 16 staff in June to cope with the traffic."

"It is disgraceful what is happening since Schengen," said Mr Górska. "Each time private citizens from Zgorzelec want to go to Görlitz, even for a night to the cinema or theatre, they have to face delays at the bor-



der. They are searched. And not only that. The German border guards insist they must have DM50 (£22) in their pocket."

Few Poles from Zgorzelec have DM50 in German currency. The average monthly wage is DM360. "So much for promises that the European Union wants to expand its borders with eastern Europe," Mr Górska said.

The German border guards say Schengen is working, although there are a few hiccups. "We are required to control everyone – 100 per cent," said Mr Dieter Ott, head of the border guards unit on the Görlitz side. Mr Ott says the main impact of Schengen is that the guards have more work.

"Between 20,000 and 22,000 people cross the bridge each day. We got 26 extra guards in March. We now have 168 people. We will get an additional 16 staff in June to cope with the traffic."

He also believes the new controls have brought advantages. "Smuggling has been reduced. We have confiscated about 5m

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NEWS: INTERNATIONAL

Japan parties seek war apology deal

By William Dawkins in Tokyo

Mr Tomiichi Murayama, Japan's prime minister, will try this week to defuse the greatest threat yet to his political survival, a self-generated row over Japan's wartime record.

The three leaders of the government coalition partners meet today in another attempt to compromise over Mr Murayama's proposal for parliament to issue a formal apology over Japan's behaviour in the second world war, so as to commemorate the 50th anniversary this year of the war's end.

This long disagreement was exacerbated last week when senior members of Mr Murayama's Social Democratic party hinted that they might leave the government, and thus cause its collapse, if the largest coalition member,

the Liberal Democratic party, continued to oppose an apology.

Government officials fear this indication of Japanese ambivalence over the war will be diplomatic embarrassment. A television poll released yesterday showed just over 65 per cent of the electorate wanting a national apology but nearly 29 per cent believing it to be unnecessary.

The LDP, sensitive to families of the war dead, said it could only accept a diluted version, offering condolences to those who suffered in the war but not an outright apology.

Talks between the LDP, the SDP and the third coalition member, the pacifist-inclined New Harbinger party, broke down late on Friday.

The LDP offered the following compromise on Saturday: "At the time

when major powers were competing in aggressive acts and colonial rules over other countries, Japan was also embroiled in the turmoil, thought about its own safety and eventually went to war against many countries.

Mr Murayama immediately rejected this draft apology on the grounds that it would not convince neither the Japanese nor their Asian neighbours.

He still hopes, however, for an accord before he attends the summit of the group of seven industrialised nations in Canada 10 days hence.

The LDP and the SDP had seemed to be prepared to set their various differences aside so as to sustain the coalition.

The LDP was less encumbered by ideology than its partner, which has over the past year compliantly dropped its

opposition to tax increases and to the existence of the Japanese military, so as to satisfy the LDP.

But the dispute over the war has exposed an emotive subject on which both sides, enemies until they formed a government nearly a year ago, find it hard to compromise.

This is a "matter of historical views held by individuals", said a senior LDP politician on television.

Mr Chiryo Morii, chairman of the SDP's parliamentary affairs committee, said on television that the party was determined to obtain an apology over the war.

But he later said that this determination only applied to the parliamentary resolution and not to the coalition's survival.

US rules on unfair trade to be simplified

By Nancy Dunne
in Washington

The US Commerce Department is moving to simplify and streamline its controversial procedures to determine whether foreign companies are unfairly undercutting their goods in US markets.

Ms Sue Esserman, departmental official for administering the "unfair trade" law, said Commerce was not conforming its practices to changes agreed in the Uruguay Round, but going even further than the round required.

The department is hoping "to simplify and reduce the costs and burdens" on foreign companies accused of receiving government subsidies or "dumping" their goods in the US market or industry.

Under the dumping regime, foreign companies accused of selling goods in the US at below cost of production are subject to duties to compensate for injury suffered by US companies. Countervailing duties are imposed on companies which receive foreign government subsidies to the detriment of US industries.

The department's implementation of its anti-dumping and countervailing duty laws has been much criticised by foreign governments and by lawyers for foreign companies. The procedures have been considered skewed in favour of US companies filing complaints.

US officials insist that their country has the world's most transparent and detailed system, giving accused companies extensive rights of reply and an appeals process in the US.

Cases may also be appealed to a dispute settlement panel of the World Trade Organisation. In the Uruguay Round, various were negotiated to make the laws more equitable. This was in part driven by the growing use of dumping and countervailing duties laws by developing countries against US, European and Japanese companies.

But the European view is that there is still much that could be done by the Japanese government to help foreign car makers expand in Japan, which in turn would help reduce the country's huge trade surplus. High on any list of measures European car makers would like is financial incentives to dealers, such as tax advantages, to encourage them to handle imported cars at a lower cost to the European manufacturers.

Easing homologation rules, which require foreign car makers to meet stringent Japanese standards, would help cut costs of operating in Japan, while greater government procurement of foreign cars would send a positive signal.

INTERNATIONAL NEWS DIGEST

US-Japan air talks impasse

An attempt to make progress on a US-Japan row over air transport, their other main dispute after cars, failed over the weekend. Mr Shizuka Kamei, the Japanese transport minister refused a US request for 11 new cargo routes to Asian destinations via Tokyo, after a one and a half hour telephone conversation on Saturday. However, they agreed to resume talks in the near future.

Japanese officials said they did not believe this latest impasse would bring any closer US threats to take economic sanctions in the air transport row.

The two sides are seeking to update and renew a bilateral aviation treaty, originating from 1952, which gives three US carriers "beyond rights", under which they are permitted to fly people and cargo to other Asian destinations via Japan. East Asian countries' fast economic growth has increased enormously the value of such rights since the treaty was first signed.

William Dawkins, Tokyo

Aviation accord eludes US and UK

The UK and the US have failed to reach agreement on a new aviation services accord. The issues dividing the two sides, however, are believed to be relatively minor. Mr Brian Mayhew, the UK transport secretary, said at the weekend he hoped the outstanding differences could be resolved. The talks, in Washington at the end of last week, were the fourth round of air services negotiations resumed in March. This year's talks have been the first since the US walked out of negotiations in December 1993.

The most recent round of talks focused on a request by United Airlines to fly from Chicago to London's Heathrow airport. The UK asked for British Airways permission to continue its second daily flight between Heathrow and Philadelphia. The UK also wants the US to relax its policy of permitting its civil servants to travel only on US airlines.

Michael Shapinka, London

Morocco rejects EU fish proposals

European Union negotiators left Morocco on Saturday without a new fishing accord after Morocco threw out their proposals on quota for the mainly-Spanish fleet. The fifth round of negotiations for a three-year accord to replace one which expired on April 30 ended inconclusively on Friday night. No date was set for further talks, although the two sides agreed to meet "in the near future" after consultations, the Moroccan news agency MAP reported.

Morocco said before the talks that it would not budge on its demands for quota cuts of 30 per cent, 50 per cent and 65 per cent, depending on species. A Moroccan delegate said the EU had proposed cuts of 10 per cent to 30 per cent, which were rejected. A Moroccan official described the atmosphere during the two days of talks as very tense.

The Moroccan accord is the EU's most important external fisheries agreement, providing a livelihood for 23,000 Spanish fishermen and fish processors in southern Spain, Portugal and the Canary Islands.

The EU fishing fleet, which included 650 Spanish vessels, was ordered out of Morocco's 200-mile economic zone at the end of April, prompting a backlash from Spanish fishermen who have blockaded imports of fish from Morocco in southern Spain.

Reuter, Rabat

E Timor talks 'break new ground'

East Timorese activists yesterday began a second day of UN-sponsored talks aimed at easing tensions in the troubled territory as a key dissident called for the withdrawal of Indonesian troops. Mr Jose Ramos-Horta, an overseas resistance leader, said the four days of discussions bringing together some 30 Timorese of different political shades broke new ground. But he insisted there could be no solution to East Timor's problems as long as Indonesia continued to occupy the territory it forcibly annexed in 1976.

Meanwhile, a leading East Timorese activist said he and several others would walk out of the talks if they did not address key political issues such as that of a referendum in the territory. UN officials have stressed the meeting is not a negotiating forum and is not intended to replace ministerial talks between Indonesia and Portugal under the auspices of the UN.

Indonesian delegates expressed the hope that the informal talks could go some way to improving relations, particularly on economic and cultural issues. Indonesia invaded the former Portuguese colony of East Timor in 1975 and annexed it a year later. The UN does not recognise Indonesian sovereignty over the territory and considers Lisbon to be the administering authority.

Reuter, Stadtschaining, Austria

India seeks Tamil extradition

India has formally asked the Sri Lankan government for the extradition of Mr Velupillai Prabhakaran, supreme commander of the separatist Liberation Tigers of Tamil Eelam (LTTE), and two others accused of the assassination in 1991 of Mr Rajiv Gandhi, the Indian prime minister. Mr P. Chidambaram, India's commerce minister who was recently given special charge of the Gandhi assassination case, said in parliament on Saturday that the government had taken the decision after a careful review of the legal position.

Officials admit that the move has more political than practical relevance. Mr Prabhakaran, who resumed the LTTE war against the Sri Lankan government in April after a brief ceasefire, is not in the custody of Colombo and is unlikely to be caught. The LTTE has been fighting for a separate Tamil homeland since the mid-1980s.

The Indian government, which has friendly relations with Ms Chandrika Kumaratunga, the Sri Lankan president, had until April found it difficult to press for Mr Prabhakaran's extradition as such a request could have jeopardised prospects for a peace process initiated by Ms Kumaratunga. But after the LTTE resumed war, Ms Kumaratunga became the first Sri Lankan leader publicly to accuse Mr Prabhakaran of assassinating Mr Gandhi.

Shiraz Sidhu, New Delhi

Death toll rises in Karachi clashes

Gummen fired volleys of shots in Karachi, Pakistan's southern port city, yesterday, as the death toll rose to 20 in four days of violence involving members of rival gangs belonging to the city's "mujahid" or immigrant community. Six people were killed and 10 vehicles burnt by unidentified gunmen yesterday as fears rose that the violence would get worse in coming days. More than 600 people have been killed in Karachi this year, mostly in clashes among those who migrated to Pakistan from India after independence from the British in 1947.

The latest wave of violence has followed a row between Ms Benazir Bhutto, the Pakistani prime minister, and a faction of the MQM (Mohajir Quami Movement), which still claims to represent the larger faction of the mujahids in the city.

Farhan Bolhari, Islamabad

UK attacks US embargo on Cuba

Mr Ian Taylor, Britain's junior trade minister, has criticised the US trade embargo on Cuba, saying its continuation threatens the stability of the Caribbean. Mr Taylor, who is leading a British trade mission to several Caribbean countries, said in Jamaica that the US embargo could lead to social and political instability in Cuba.

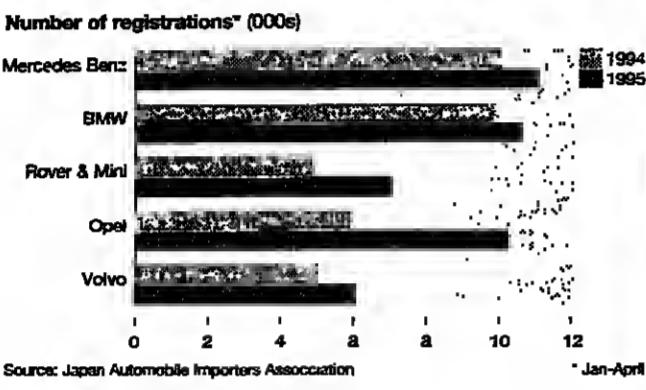
With a population of 11.5m people in Cuba, Mr Taylor said, such unrest would lead to a flood of refugees to neighbouring islands. His criticism follows efforts by several legislators in Washington to tighten sanctions against Cuba to put pressure on the government of President Fidel Castro to carry out political and economic reforms. The latest move is a draft legislation to penalise countries and companies which invest in and trade with Cuba. President Bill Clinton has rejected the proposals, and they have been criticised by members of the European Union and by Cuba's more immediate neighbours.

Canute James, Kingston

Learning to drive the foreigners' way

Michiyo Nakamoto finds greater acceptance of imported cars among Japanese

European cars in the Japanese market



Source: Japan Automobile Importers Association

abolish. For example, one of the biggest obstacles is a low level of recognition among Japanese consumers. This arises from the country's long history of being virtually closed to imported vehicles.

"Two generations of children have grown up without even seeing a foreign car," says one European car executive. "Add to that the fact that Japanese consumers and dealers are very conservative" and it takes a tremendous effort, as well as a huge amount of money, to win consumer familiarity.

The high cost of building that recognition - among consumers and among dealers - and of setting up everything from a distribution network to a parts and maintenance service - is one of the biggest hurdles foreign car companies face in expanding in Japan, European car officials say.

In its dispute with Japan, the US has cited the close ties Japanese car makers have with dealers as a major impediment.

Many European car makers counter that exclusive dealership arrangements are not the real problem. Both Mercedes-Benz and Rover have been approached by Japanese deal-

ers, including those in the close-knit *keiretsu* groups of other car companies. Volkswagen Audi has an agreement with Toyota which has enabled the German car group to sell through Toyota dealers as well as its own independent dealer network. Of the 176 dealers Volkswagen Audi has signed up in less than five years, Toyota dealers number 95.

Rather than the closed nature of the distribution system, it is the high cost involved in building up a net-

work and the long time it takes to secure a reasonable return on investment that make it difficult for foreign companies trying to expand in Japan.

European car officials say.

"We are running the most expensive distribution operation in the world," says Mr Rainer Jahn, president of Mercedes-Benz Japan, which is often cited as a shining example of foreign success in the Japanese market. "Nowhere do we spend as much on distribution as we do in Japan."

Also important is the need to set up inspection, maintenance and parts supply facilities in Japan to meet the standards of demanding Japanese car owners.

At Volkswagen Audi's vehicle preparation centre, every car goes through a second pre-delivery inspection where the finish is meticulously checked for the smallest scratch. Volkswagen Audi has invested in training mechanics and has opened a central parts depot which lets it process 97 per cent of orders within 24 hours. "If we are going to get users to switch from Japanese cars, we have to offer the same quality and service as domestic makers," says Mr Minoru

Malaysia pledged to pursue zero inflation

By Kieran Cooke
in Kuala Lumpur

Where others have tried and failed, Dr Mahathir Mohamad, the Malaysian prime minister, is determined to succeed. He launched a nationwide battle against rising prices at the weekend, saying Malaysia could achieve zero inflation.

He also said the country's economy would not only continue growing at its present high pace but expand even more rapidly.

"Nobody will lose from zero inflation," said Dr Mahathir, unveiling the campaign's logo. "Definitely, the country's economy will grow at a more rapid pace and all of us can reap the fruits of it."

The Malaysian economy has

target is achievable. Official figures show Malaysia with a good record in the battle against rising prices. Bank Negara, the central bank, says that inflation, on an annualised basis, was 3.3 per cent for the first four months of the year. Inflation last year was put at 3.7 per cent.

One of the reasons for the campaign could be that very few people believe the government figures," says a local economist.

Analysts say the official figures do not reflect the substantial disparities between the cost of consumer goods in urban and rural areas. Also, the figures are highly selective: they do not include the cost of housing, which has gone up in some areas of Kuala Lumpur

and of other cities by as much as 40 per cent in the last year. Other, more fundamental issues lay behind the campaign. The government is concerned about a current account deficit which last year rose to M\$1.6bn (\$4.7bn), or 6.6 per cent of GNP, from M\$1.3bn in 1993, or 4.1 per cent of GNP.

Increased spending on imported consumer goods was one reason for the rise.

Merchandise imports rose in 1994 by 32 per cent - the biggest increase since 1988.

Wages and productivity are other factors behind the government's anti-inflation campaign. Wage rates are crucial in the maintenance of Malaysia's competitiveness and its ability to continue to attract large foreign manufacturing

investment. After eight years of fast growth, there are serious labour shortages in almost every sector. The result has been rising wage rates and more inflation.

A national survey of the manufacturing industry found that, in the first six months of last year, wages rose 7.3 per cent, while productivity increased by only 2 per cent.

The government has won gains among consumers by revoking recent price rises by the semi-privatised electricity utility. However, the move has caused nervousness among local and foreign investors in Malaysia's privatisation.

So far, the government has stopped short of putting up interest rates or other monetary measures.

In common with the other eight licensed, the two Japanese banks have decided to open only one branch in Makati (Manila's business district) and to concentrate initially on wholesale corporate services as opposed to personal banking.

So, the first competitive pressure will be felt in the corporate sector, say banking specialists.

Another objective is to increase foreign direct investment in the Philippines. Anecdotal evidence suggests that the new entrants were motivated to compete for the licences by the opportunity to service large corporate clients from their home countries investing in the Philippines.

The much-awaited "third

expansion" of the banking sector is about to undergo a seachange. In the remainder of 1995, 10 of the world's largest banks will set up branches in Manila, following the central bank's decision this year to expose Philippine banks to greater foreign competition.

Banking specialists say the arrival of foreign banks will challenge traditional banking practices in the Philippines and transform the country's small capital markets.

The foreign banks arriving in Manila are Fuji Bank, the Bank of Tokyo, ING Bank, ANZ, Development Bank of Singapore, Korea Exchange Bank, Bangkok Bank, Taiwan's Commercial Bank of China, Deutsche Bank, and Chemical Bank.

"The new licensees are keen to introduce new commercial instruments, so we should see quite a rapid development of the Philippine capital mar-

ket," said Roman Azanza, chairman of the capital market development council. "This will include derivatives, forward options, new debt instruments and a

NEWS: UK

Railway privatisation Flotation of company which owns track is now prime objective

Timetable for first sales is abandoned

By Charles Batchelor,
Transport Correspondent

The government has abandoned its timetable of privatising more than half of passenger train operations by April next year, say train operators bidding to run services. They claim that it has decided to concentrate on a stock market flotation of Railtrack, the company which owns the national network's track and signalling.

It had looked increasingly unlikely that the franchising director, Mr Roger Salmon, could sell the franchises covering more than half of the passenger network by the April

1996 deadline. The impossibility of doing so has now been acknowledged privately by Mr John Major, the prime minister. Tenders have been sought to operate three out of 25 services, but a July 18 deadline for sending out invitations to

tender for a further four franchises will not be met. It seems likely that September is the earliest that invitations could be sent. Sufficient time would then have to be allowed for preliminary bids and negotiations. Any slippage in the timetable

could take the privatisation process into the run-up to the next general election due to be held by May 1997.

Publicly, the Department of Transport and the franchising director maintain that the 1996 target date for privatising 51

per cent of passenger train operations still stands. But the flotation of Railtrack is now seen as central to the success of the railway.

A stock exchange float would make it very costly for a future Labour government to renationalise Railtrack. Labour has not said it would renationalise the railway, but Mr John Prescott, the party's deputy leader, has spoken of establishing a "publicly owned" railway.

The government has said it wants to privatisate Railtrack in the life of the present parliament but leaked documents indicate a preference for the first quarter of next year.

Defence equipment Costs of many big projects soar far above original estimates

Culture change demanded at ministry

By Bernard Gray,
Defence Correspondent

Development of the Eurofighter 2000, the four-national agile combat fighter in which the UK has a 33 per cent share, was estimated in 1988 to cost the UK £2bn. At current prices that equates to £2.8bn (£4.4bn), yet developing the aircraft is now likely to cost £3.9bn, an increase in excess of inflation of 38 per cent.

So is the Defence Ministry incapable of controlling the spiralling costs of its projects, or are there deeper forces at work? Other organisations which have large project management tasks have had similar problems, even in the private sector. The Channel tunnel is perhaps the most infamous. It was estimated to cost £4.8bn in 1988, against the eventual total of between £10bn and £11bn.

Confidential defence ministry documents which break down the figures on cost increases suggest that several factors are at work, and that there are cures for at least some of the problems.

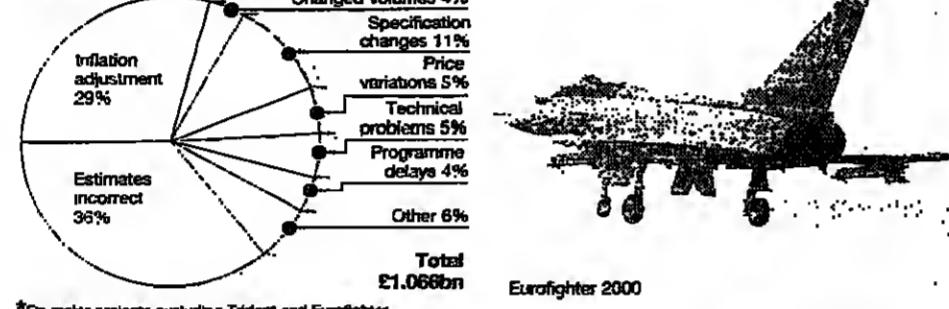
There is little doubt that there is a systematic tendency for the ministry to underestimate the cost of its projects. Some projects do come in more cheaply than originally forecast, most notably the Trident

missile submarine programme which will cost £3.46bn or 23 per cent less than anticipated. But most cost more, and even within the Trident programme there were some elements which cost far more than originally estimated.

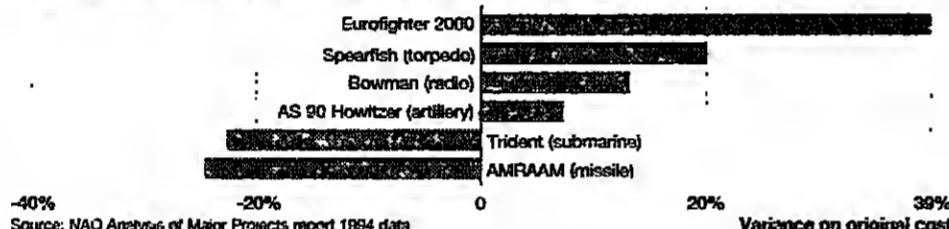
Ministry officials acknowledge that this bias really

The uncertain price of military hardware

Reasons for cost overruns*



Cost variations on selected programmes



Source: NAO Analysis of Major Projects report 1994 data

exists. In part they attribute it to an optimistic "can do" attitude of staff, who want the programme to succeed and tend to believe that projects can be made to run smoothly. They are therefore liable to underestimate the severity of potential problems and leave an insufficient contingency

drive down the cost of equipment spending and will be reluctant to see project totals inflated by contingency reserves apparently provided "just in case".

With the main participants - companies, civil servants and ministers - all having an interest in keeping the cost down, it is hardly surprising that there is systematic error, even though the cost estimates are heavily audited. Mr Roger Freeman, the defence procurement minister, acknowledges the point and argues that there has to be a cultural shift. "We have to be more honest with ourselves about issues such as the time it takes to complete a project." The ministry is trying to tackle the problem in part by replacing its single-point estimate of costs with a 3-point ranges for larger projects. Teams now have to report a worst-case/highest-cost estimate, a best-case/lowest figure and their most likely outcome.

The system gives a more realistic bracket than the spurious accuracy of a single figure on a programme which may run for more than a decade. It also gives a graphic illustration of the degree of uncertainty left in the project. The wider the range the greater the uncertainty and the more carefully the project needs to be monitored.

put the issue of political donations directly to shareholders for approval. Most relied on very general provisions in their articles and memoranda of association. The GMB was confident that such powers would be held to be too general to authorise specific political contributions. He said: "Corporate political contributions have been made on the basis of political wishes and inclinations of directors - sometimes based on friendships."

The union wants a change in the law so that votes at company annual meetings must be cast by the shareholders themselves and the votes recorded and open to public scrutiny. "Our campaign will expose the Square Mile mandarins who control billions of pounds and wield enormous power," said Mr Edmonds.

Andrew Bolger, Employment Correspondent

Fraud rife in business, says survey

UK NEWS DIGEST

EU

Fraud is rife in British business, says a survey in which more than two-thirds of the 100 finance directors polled said their companies had suffered financial crime. Managers commit more frauds than junior staff because they are audited less rigorously, said Mr Mark Speed, research director for the survey. It was commissioned by Security Gazette and the consultancy Control Risks, and conducted by the polling organisation Mori among finance directors chosen randomly from the 1,000 largest public companies.

The survey said 60 per cent of frauds were committed by managers, with middle managers the chief culprits. Nearly a third occurred in finance departments. Fraud costs companies an average of 2 per cent to 5 per cent of their turnover, according to Network Security Management, the fraud investigation business. Mr Speed said freelancers and consultants posed fraud risks because they were seldom subject to audit once they stopped working for a company. Also, many felt little corporate loyalty. The survey said one in three frauds involved people from outside a company.

TV franchise contender chooses top executive

UKTV, the consortium that put in the highest bid for the Channel 5 television licence, has appointed as chief executive Mr John Fairley, former managing director of Yorkshire Television. The appointment will boost UKTV's chances of winning the licence for which it bid more than £36m (£56.5m) a year.

The consortium put together by CanWest, the Canadian commercial broadcaster, has pledged that if it wins the licence it will give 1 per cent of its pre-tax profits to a charitable trust to be known as "Imagine . . ." The trust's main aim would be to support the performing arts.

Raymond Snoddy, Consumer Industries Staff

Man charged over Ecstasy haul: A man is to appear in court at the port of Dover in south-east England after Ecstasy with a street value of more than £500,000 (£785,000) was seized by Customs officers. A couple from Belfast in Northern Ireland were stopped as they drove off a ferry from France. Customs officers said 13kg of the drug were hidden in the vehicle.

Islanders protest: Residents of the Scottish island of Iona have protested at the damage inflicted by thousands of visitors to the grave of John Smith, the leader of the opposition Labour party who died last year. Smith's family was given special permission to bury him next to Iona Abbey, the resting place of Scottish kings. Fisherman Iain Dougall, whose parents are buried near Smith's grave, said: "These visitors are destroying locals' graves as they try to pay their respects to a man, who by rights, should not be here."

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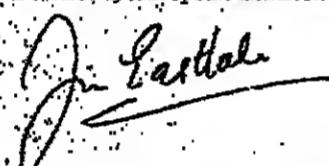
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 **TEXAS
INSTRUMENTS**

Arizona 0958

THIS WEEK

French elite: plus ça change

It is an old politician's recipe: campaign against the bureaucrats, but once elected and in need of their expertise leave them as they are.

But because the tactic of beating-up-on-the-bureaucracy is more flagrantly used in the US than in Europe where civil servants generally have a higher status, it was all the more striking that Jacques Chirac should have campaigned himself to victory partly by raging against the power of France's technocratic élite.

Like four of the men that he beat for the presidency (including Edouard Balladur on the right and Lionel Jospin on the left), Chirac is himself an énarque. That is to say a graduate of the Ecole Nationale d'Administration, which together with a couple of other administrative schools provides even more of the political and business élite in France than Oxford and Cambridge do in the UK or Harvard and MIT in the US.

Not surprisingly, therefore, Chirac did not complain about énarques per se, but about their dominant influence in the cabinets or private offices of ministers. "These brilliant young people, from good

schools, competent, well trained, honest... concentrate all power in their hands," he complained on the campaign trail, adding that "the first thing for the politicians to take back power is to abolish these ministerial cabinets".

Since taking office, Chirac has ordering a slimming down of ministerial cabinets, setting an example himself by halving the number of councillors that François Mitterrand had at the Elysée. But one of the main targets of the bureaucrat-bashers in France - the 400 financial whizzkids who make up the Trésor - has gone unscathed. And another network - that of the foreign ministry - has actually grown. Alain Juppé, who was foreign minister in the Balladur government, has taken diplomatic posts with him to the prime minister's office and planted others in key Elysée posts around Chirac.

In general, the énarque network remains intact. It needs to, for one simple

physical reason. With a few exceptions like the finance minister, he has held up with all his troops in an ugly modern fortress on the east of Paris. French ministers like to inhabit the fancy mansions built by 18th century aristocrats in central Paris. Isolated from the bulk of their civil servants, ministers would not have a clue about what was going on without their private staffs.

Nonetheless, the Chirac campaign clearly tapped a rich vein of popular resentment of "la technocratie". So, what is wrong with French bureaucrats? Charges of inefficiency and corruption. Often levelled against bureaucrats in other countries, do not really stick in France.

The French civil service is generally efficient and honest.

International testi-

mony to this is pro-

vided by the fact

that it acts as the

secretariat for the

Club of Paris which

organises

the

rescheduling of offi-

cial debt, and that it

has provided a series of managing direc-

tors for the International Monetary Fund.

It may throw up the occasional dud, as

Jacques Attali proved himself at the Euro-

pean Bank for Reconstruction and Devel-

opment, but there was no objection to

him being replaced there by another

French public servant, Jacques de Lar-

osse.

As for the wider public sector, the

French generally hold their public ser-

vices and utilities in high regard. Many took to the streets last week to defend these utilities from the encroachments of the Brussels deregulators. True, it was an énarque and former head of the French Trésor, Jean-Yves Haberer, who brought the state-owned Crédit Lyonnais to near-

ruin. But this has provoked a salutary

awareness of the need to cut the umbilical

cord between the state and business, and

to press on with privatisation.

However, the énarque system has fos-

tered for too long the illusion of "the

gifted amateur" floating effortlessly

between the public and private sectors

and able to tackle problems of which he

or she has no previous experience. The

tendency of top civil servants to para-

chute into private sector jobs within their

previous area of government responsibility

also raises issues of conflict of interest,

which are now being dealt with.

In addition, the tradition of the "gifted

amateur" has a pernicious effect within the private sector, where most big French companies tend to fill their top jobs from outside rather than picking leaders from those within the business.

Last week's example of this was the decision by the Alcatel Alsthom engineering and telecommunications group to pass over several internal candidates for president in favour of Serge Tchiruk, the highly capable Total president with a background exclusively in oil and chemicals.

But the real gripe of Chirac and many French with the technocratic élite is that the latter has an inbred conformity of views or a *l'essence unique*, which it has foisted on the country.

The complaint is that the élite sees no alternative but to push-ahead mindlessly with liberalising trade and finance and reducing budget deficits - and that it is hindered from the social hardships like the unemployment that these policies cause. The riposte of the élite, however, is that there are other realities - in particular the disciplines required by the international financial markets - which France ignores at its peril.

PEOPLE

Quarta springs into action

The chief executive of BBA Group, tells Tim Burt he has little love for the status quo

Roberto Quarta, chief executive of BBA Group, is enjoying himself enormously. He has restructuring one of the UK's leading industrial and engineering companies, returned it to profit, and signed a deal that should make it one of the world's largest non-woven textile manufacturers. Ten days ago, he could not prevent himself smiling when he announced the surprise SF466m (£24.5m) takeover of Holvis, the Swiss paper distribution and non-woven textiles group.

Not only had BBA emerged as the likely winner in Switzerland's first takeover battle; it had also signalled that its forced diet of job cuts and disposals had begun to pay off.

It was a painful experience for the UK group. In the 18 months following his arrival, the 46-year old Italian-American cut some 2,000 jobs and sold off subsidiaries with combined sales of £400m. "The patient is not only out of intensive care, but out of hospital and looking to grow," he says.

International Paper, the world's largest paper company, probably wishes BBA - a company less than a sixth its size - was still in the

operating theatre. For Quarta not only put together a Swiss-share offer which stole Holvis from under its nose, but also clinched a "lock-out" agreement to buy the Swiss group's non-woven textile business.

The move prompted much teeth-grashing at IP, which had expected its SF455m-share hostile bid to be accepted by Holvis after InterTech, the US fabrics group, withdrew from the bidding. Stung into action, IP promised to lift its offer to SF550m if Holvis backed off on its non-wovens deal with BBA, and sent a battery of lawyers to protest to the Swiss takeover commission.

Quarta appears undaunted. "We have a binding contract. It's watertight." He expects the takeover commission, whose decisions are not binding, to approve the deal and allow BBA to complete the purchase. A decision may come today, but Quarta has already begun planning how to push Fiberweb and Mühlebach - Holvis's two operating arms - towards the double digit margins now expected of BBA.

As with the UK businesses, he plans to apply the techniques honed at BTR, the conglomerate where the law is quite prepared to lay down the law," says one colleague. Quarta's

former tailor's son rose to board level and was seen as heir apparent to chief executive Alan Jackson.

"The financial discipline of BTR proved the right mechanism for BBA. There were some people here who felt this company was a victim of the recession. I don't agree. You cannot change the weather or economic cycles. But you can determine your own costs and prices. We had to break people's affection for the status quo," says Quarta.

That effort, culminating with the disposal in April of Automotive Products for £181.2m, earned Quarta a reputation as a strong-arm man. Around the City, he is known variously as "coiled spring," "Bob-the-knife," and "spare no" Quarta.

Given the choice, he prefers "coiled spring." Colleagues say it reflects the speed at which he gets things done. The Holvis deal was put together in 72 hours, and the sale of Automotive Products to a management buy-out team was arranged with venture hacking before the management even knew it was up for sale.

Bob makes decisions rapidly and is quite prepared to lay down the law," says one colleague. Quarta's

affection for the law is evident in his City office, where he drinks coffee from an FBI mug.

"When I was younger, I thought about joining the FBI," he says. "But then I went to college, the draft intervened and I ended up in business."

Vanni Treves, chairman of BBA, thinks he made the right decision. "We wanted him to be radical and I trusted his judgment," he told reporters earlier this year.

That judgment has seen BBA emerge from a £72.1m rationalisation as a group focused on four main areas: friction products, specialist electrical components, aviation services and non-woven textiles. In three of those areas it is either market leader or a leading player. "We're either at or well on the way to double digit margins in our remaining business and we've achieved that faster than expected," says Quarta.

Rising demand for those businesses helped BBA swing into the black last year, transforming pre-tax losses of £14.5m into profits of £63.9m. Quarta hopes to augment those figures by integrating Fiberweb with Reemay, its existing non-

operating theatre. For Quarta not only put together a Swiss-share offer which stole Holvis from under its nose, but also clinched a "lock-out" agreement to buy the Swiss group's non-woven textile business.

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MANAGEMENT

As a pectoral effect, where most big firms tend to find their top people than picking leaders of the business. It's example of this was the Alcatel Alsthom, communications group, which Total president, Mr. Serge Tchoumi, exclusively in oil and gas

real prime of China and a the technology also has an in-bred confidence unique, which is the country. It is that the elite are using trade and money, from the social hard-hitting that these are other realities - in

Traditional authority was vested top-down: from shareholders to corporate officers, from officers to managers and then to staff. Levels of authority were delineated in terms of discretionary spending limits and the scope for autonomous action. In the knowledge economy, the only employees that are worth having are those with many other choices of employment. The most capable knowledge workers are less inclined to think of themselves as loyal soldiers and more inclined to view themselves as sought after faculty members. It's not HQ any more, it's the corporate campus.

Occasionally, authority can command compliance, but it can never command commitment: Beavis and Butt-head aren't the only ones who have a problem with authority - try winning the fealty of a whip-smart 32-year-old bond-trader, or brand manager on the basis of raw, positional power.

In the machine age, control was everything. Managers were allergic to surprises. The results of that obsession were painfully detailed reporting systems, endless review meetings, brusque phone calls when budget variances were spotted, a temptation to second-guess operating managers, and a seemingly unquenchable thirst on the part of HQ for more data.

Control today is often illusory. To measure is not to control, as every weatherman knows. In our fast forward world, product life cycles can be shorter than accounting cycles. Accounting data is great for autopsies, but lousy for direction. And it's not just a question of timeliness, it's also a question of appropriateness. Do control systems measure the right things? Competitors? Intentions? Emerging market needs? Subsidiary shifts? Typically, no.

Speed and unpredictability are not the only enemies of control. In the emerging world of networked global organisations, it is inevitable that more and more of the resources critical to the success of the firm will lie outside the direct control of a company's managers. The hierarchy is giving way to the network.

De-integration brings greater dependence on suppliers. The scale of R&D investment demands risk-sharing with alliance partners. New opportunities transcend business unit boundaries. Geographic specialisation leaves national subsidiaries dependent on far distant affiliates. As the boundaries of the firm become more imprecise, so do the boundaries of managerial control.

It was once the case that unless you were caught with your hand in the till, or publicly slandered your boss, you could count on a job for life in many large companies. Loy-

In the information age past orthodoxies can be a liability and the premium is on identifying emerging trends, writes Gary Hamel

The prize that lies in foreseeing the future



THAT WAS THEN

THIS IS NOW

ity was valued more than capability, and there was always a musty corner where mediocrity could hide.

Managers have now gleefully abrogated the social contract between the firm and its employees. The entitlement culture is dead. In one sense, large companies are asking employees to take on the same responsibilities, and risks. Of course, they would take on in a start-up, but they denied the corresponding entrepreneurial freedom.

No wonder many bright young things are turning their noses up at big company jobs. In all the talk about the new responsibilities of employees, there is little talk about the new responsibilities of managers. Talk all you like about building a high commitment organisation, but isn't commitment reciprocal? No wonder loyalty ain't what it used to be. Many managers will avow that people are our most important resource, but how many employees feel this to be true?

Employees today are urged to love customers, to have a passion for quality, to work ceaselessly for the benefit of shareholders - all laudable goals. But it is unlikely their commitment to these goals will exceed the commitment shown to them by the company and its executives. Hence the real costs of diminished commitment are likely to be seen not just in plummeting employee satisfaction, but in dramatic customer satisfaction as well.

Extraordinary effort springs from

a deep sense of affiliation with an organisation and its goals, whether the organisation is Greenpeace, Save the Children or an evangelical church. Yet much of what managers have been doing over the last several years has been weakening, rather than strengthening the bonds of affiliation between employee and employer. Of course, companies should be intolerant of mediocrity; of course, there should be no room for slackers. But it is possible to build a sense of affiliation and belonging in an organisation that relentlessly prunes away the under-performers?

Experience brings authority. A young mountain climber has much

stability, as were the rules of competition within any industry.

Soft drinks were soft drinks, not fancy foreign waters and exotic flavoured teas. Individuals were savers, not investors, and certainly not international investors. Telecommunications meant universal service brought to you by a monopolist, not value-added services delivered by an up-start.

In industry after industry the terrain is changing so fast as to make experience irrelevant, or dangerous. It is ironic that it is often those managers who have the greatest emotional equity in the past - those with the greatest seniority - that possess the most formal authority.

To a geriatric multinational, suffering from a 50-year legacy of

strong and fiercely independent national subsidiaries, global means transnational; it means trying to catch up with the forces of economic and market integration. To a young start-up, global means supranational; it means being a driver of economic and market integration not a bystander. Nike, Sega, Acer, MTV and many others are defining what global means; they are welding together a generation of global consumers they are linking capabilities. The most successful managers in the 21st century may well be those that carry the least national baggage.

In the machine age, people were ancillary, things were central.

In the information age, things are

ancillary, knowledge is central. For

more and more companies, the ratio

of market value to book value is a

multiple of three, five, 10 or more. A

Hierarchical superiority rests on a supposition that people at the top know more than people at lower levels . . . the terrain is changing so fast as to make experience irrelevant

to learn from a veteran who has led an expedition up and down Everest. The assumption has been that the same is true in companies. Hierarchical superiority rests on a supposition that people at the top know more than people at lower levels, that two or three decades of industry experience makes one wise.

Of course, experience is of value only to the extent that the future is, more or less, like the past. Historically, industry boundaries were rel-

atively stable, as were the rules of competition within any industry.

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Multinational companies were traditionally built around countries - the German subsidiary, the Italian operation, the outpost in Australia. The basic organisational unit was the national subsidiary. Typically, the home market was assumed to be the lead market - the source of innovation and executive leadership.

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MEDIA FUTURES

Last week, a company specialising in industrial and domestic control systems announced a new product that could prove a milestone in the world's computer industry. It was not the product itself - a fairly standard piece of industrial control equipment - that was surprising. Rather, it was the fact that the product was compatible with a new software standard called Nest, or Novell Embedded Systems Technology.

Nest is a system which allows electronic equipment of all kinds to receive instructions and to respond to them just as if they were computers on a network. Announced in February after two years of development, the system deals only with the most basic layer of communication between machines - so it can work with different microprocessors and different computer operating systems.

Last week's new product may be only the first of a very long line of new Nest-compatible gadgets. Novell, the computer networking company which launched the technology in February, has already

released a list of 100 forthcoming Nest products promised by its partners across the world. Faxes, copiers and printers are due from Canon later this month; by the summer, other office-equipment manufacturers, including Ricoh, Lexmark, Fujitsu and QMS, will follow suit.

Novell's hope is that by 1998, it will be earning hundreds of millions of dollars a year from Nest - and that by 2000 a total of 1bn machines across the world, ranging from cars to washer-dryers, from fax machines to mobile phones, will be wired into a single Nest network. Such is the prediction that Bob Frankenberger, chief executive, has made in public.

Many people who have a feeling for high-tech history will be tempted to say that Frankenberger has sat for a little too long in the Utah sun. But his astounding prediction may make more sense than it seems at first sight, and it is worth looking at Nest in more detail to see why.

Turning 'pervasive computing' from a slogan into a reality has already been

tried twice without success. The first attempt was by a Japanese university professor called Ken Sakamura, who more than ten years ago invented a system called Tron which he hoped would allow people to telephone their homes from work and key in some numbers that would close their curtains, switch on the oven and run a bath.

Sakamura's idea was taken up with some enthusiasm by Japanese electronics companies, who hoped it would allow them to conquer new markets. But it founded on two obvious rocks: first, the lack of intelligent machines worth connecting together, and second the unwillingness of consumers to pay a very high price for functions of dubious usefulness.

The second attempt at pervasive computing, Microsoft's At Work project, was a little more serious. Never a company that was constrained by excessive modesty, the Seattle-based software house tried to develop a standard that would allow office machines to talk to each other and to

accept commands from Windows-based personal computers. But equipment makers reacted coolly to the idea - partly because Microsoft demanded a high price for using the At Work standard which left them little room to profit, and partly because the standard sought to impose a standard look and feel which would force manufacturers to compete with each other only on price.

Why, then, does Novell think that it can succeed where these two attempts have failed? One reason is that the Utah-based networking company already has a body of technology and a reputation in the underlying technology of computer networking: some 50m terminals across the world are linked to Novell PC networks.

A second reason is that Novell has approached the idea of pervasive computing with less hubris. Instead of asking manufacturers for \$50 or more in licensing fees per machine, it is demanding only \$3-\$15, and often much less. Instead of seeking to impose its own front-end on

every machine, it is allowing equipment manufacturers and integrators to design their own interfaces for the user. As a result, the Nest standard can work with many different microprocessors and operating systems.

Most importantly, the conditions outside are now right. Interest has been awakened by the abortive Microsoft launch, and there is a large installed base of potentially compatible machines and customers who are familiar with the concept of computer networking.

The project was first conceived two years ago when Novell was trying to decide what to do with Digital Research, a software company in Monterey, California, that it had acquired. Darl McBride, a senior manager who was kicking his heels at Novell's headquarters in Utah, after returning from a spell running its Japanese operations, was sent down to look at Digital's work in linking cash register networks together, and to see whether it might have any wider applications. Nest

was the idea he came up.

McBride has a zealot's gleam in his eye as he talks of the possibilities. Companies are looking at Nest to reduce energy costs by controlling water and electricity meters, to improve the reliability of office copiers by testing them down telephone lines and sending engineers with new toner before it is even needed, and to raise the stakes of slot machines by allowing a jackpot prize to be offered to a single winner across hundreds of networked one-armed bandits.

It will be another year or so before anyone can judge the projects chances.

But if Novell manages to keep its modesty, and if the desire of machinery manufacturers to add value by making their products more intelligent continues to increase, then pervasive computing may just become a reality.

When it does so, McBride believes, computing will simply fade into the background and we will become conscious that our machines are wired up only when we receive messages from them. E-mail from your washing machine? Remember where you heard it first.

• Tim Jackson can be reached at t.jackson@prod.demon.co.uk.

E-mail from your washing machine?

Tim Jackson

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Art of the possible

Alice Rawsthorn
explains why the
Whitney has
joined the Web

Any art buff in Milan or Milwaukee who is itching to see the 1995 Biennial exhibition at the Whitney Museum, but can't trek all the way to Manhattan, can now check it out on their computers.

Some of the Biennial exhibits are displayed in digital form on the Whitney World Wide Web site which went on line a few weeks ago. After their virtual visit to the Biennial, the art buffs can then move on to other pages to extract information from the Whitney's database, or browse around the museum's permanent collection before joining in a debate on the politics of censorship or the future of painting.

The Whitney Web site is part of a surge of online activity in the art world. Other museums, such as the Los Angeles County Museum of Art and the Andy Warhol Museum in Pittsburgh, have their own Web sites. The Serpentine art gallery in London set up a special site for this spring's *Take Me In Your Arms* exhibition. Contemporary artists such as Nam June Paik and Jenny Holzer, are creating original works for the Internet. David Ross, the Whitney's director, believes that these experiments will transform the role of museums like the Whitney in the future.

"Our Web site allows us to reach out to a wider audience by helping people who can't physically come to the museum to take look at what we're doing here and access information," he says. "It also takes us to new areas by opening up an incredible dialogue between the Whitney's staff and the public."

One of the main aims of the Whitney Web site is to promote the museum's traditional role as a forum where the public

can see selections of works of art defined by particular themes. In its case to study 20th century American art. Some pages on the Web site offer information on the museum's opening times and forthcoming exhibitions. Others enable people to enrol as patrons or to order catalogues and merchandise from the Whitney's shop.

Ross does not envisage that looking at digital images of the Whitney collections will ever become a substitute for visiting the museum. The paintings and sculpture owned by the Whitney were, after all, intended to be looked at by the human eye, not diluted down into digital form. He prefers to see the digital archive as a taste to tempt people into the museum or, in the case of the art buffs in faraway Milan or Milwaukee, as an alternative to the conventional catalogues the Whitney usually publishes for exhibitions.

However, the Whitney is also using the Web site as a forum for the new genre of art being created specifically for the Internet. It has started by commissioning a digital art project from Lowell Darling, a California conceptual artist. It has asked other artists such as Laurie Anderson, Jenny Holzer and Barbara Kruger to create original pieces for future display on the Web site.

These commissions will enable the Whitney to play the same catalytic role in the development of digital art, as it

has in other new media such as video and installation art. "We're very excited by the work in this area," says Ross. "It will turn the Web site into our own virtual museum."

Going online also enables the Whitney to interact with the public rather than restricting itself to the traditional role of a museum as a monological institution. Anyone interested in the Whitney's activities, or in offering opinions on particular issues or exhibitions, can convey them to members of staff e-mail. Ross has set up a Director's Office page on the Web site where people can leave messages to which he or his colleagues can respond.

The Whitney is extending this dialogue with the public by organising online debates on topical issues such as the Politics of Censorship and the Future of Painting. It has been running these debates for the past eight months on Echo, the New York-based online network. Anyone who wants to participate in a debate can post an electronic essay or statement on the relevant Echo bulletin board. Alternatively they can respond to a message that someone else has posted there, or just look at what the other participants have written.

These online conferences are much more flexible than the conventional seminars or debates that the Whitney holds at the museum. They are open to more people. It is easier for individuals to express their views. And there are no constraints on timing.

Ross sees conferencing as a critical component of the Whitney's plans to expand its role as a cultural catalyst by stimulating debate. The Whitney's Internet address is <http://www.echomny.com/whitney>.

Surprise results from Orlando

By Raymond Snoddy

The first three months of Time Warner's ambitious experiment in interactive networks in Orlando, Florida, have produced surprising indications of what sort of services consumers use most.

Far ahead of things like video on demand, the early customers of the network have the ability to order stamps from the post office, without having to queue, and letting the post office know interactively when they want a parcel collected.

The annual meeting of the European Cable Communications Association in Zurich last week was told of the surprising popularity of the two postal services by Jeffrey Schwab, president of Time Warner's international cable operations. The Orlando experiment has only been going for three months and so far about 100 homes are connected to the network; the aim is to increase this to 4,000 by the end of 1995.

The first three months have also been free. The true test will begin this month as Time Warner starts charging for the wide range of services, chosen off an on-screen carousel.

• In Zurich, Cyrille du Peloux, chairman of Lyonnaise Communications, the French cable operator, said the company was about to launch interactive services in Paris - offering everything from home shopping and banking to virtual museums and connections to the internet.



DreamWorks team: Steven Spielberg (centre), Jeffrey Katzenberg (left) and David Geffen

DreamWorks deal: say goodbye to Sillywood

By Louise Kehoe

Cambridge Animation Systems is in order to cement the deal.

Unlike other entertainment-technology partnerships aimed at transforming Hollywood's creative content into new media such as interactive computer games, the end products of this latest match up will be shown on the cinema's traditional big screen.

The latest such partnership appears, however, to be more promising. DreamWorks SKG, the film studio formed last October by film director Steven Spielberg, record titan David Geffen and former Walt Disney Studios chief Jeffrey Katzenberg, has allied with Silicon Graphics, the leading manufacturer of graphics computers and software, to create an all-digital film production studio in Los Angeles.

Silicon Graphics has a track record of working well with the film industry. The company's computers created the life-like dinosaurs for *Jurassic Park*, and its 3D workstations were used for the special effects in *Casper*, the latest film released by Spielberg's

production company, Amblin Entertainment.

Unlike other entertainment-technology partnerships aimed at transforming Hollywood's creative content into new media such as interactive computer games, the end products of this latest match up will be shown on the cinema's traditional big screen.

The partnership, nonetheless, has ambitious goals. "We aim to do things that people have never seen before," says Katzenberg. The company plan to create an advanced computer animation production system called the Digital Animation Dreammachine (DAD) in a jointly funded \$350m project.

Also playing an important role will be Cambridge Animation Systems, a British software company that is a leader in the development of software for cartoon animation for films, television, computer games and multimedia productions. Silicon Graphics plans to take a minority investment in

GNN bid: takeovers arrive in cyberspace

By Louise Kehoe

The first takeover in cyberspace is about to take place when Global Network Navigator, a World Wide Web site that pioneered the use of advertising-supported publishing, is acquired by America Online, the leading US commercial online service. With an estimated 400,000 regular readers, GNN, a subsidiary of the publishing group O'Reilly & Associates, provides one of the most popular sites on the World Wide Web.

"The sale is significant in that it is the first time a value has been placed on an intellectual property that comes from the Internet," said Tim O'Reilly, president of GNN. AOL will pay around \$11.7m in stock and cash.

The acquisition also reflects mounting competition in the online services market. AOL said that it plans to establish GNN as the core of a new Internet service to be launched on August 24. It is no coincidence that Microsoft has chosen the same date for the introduction of its new online service, called The Microsoft Network (MSN).

MSN represents a competitive threat to AOL and other consumer-oriented commercial online services, such as Prodigy and CompuServe.

But bigger challenge facing both existing and new commercial online services is the increasing popularity of the Internet. Bypassing the subscription services, growing numbers of consumers are dialing into the global computer network via local Internet access providers.

The online services market is becoming segmented, said Steve Case, president of AOL. "Most consumers want a broad range of services, with simple and affordable pricing... but a growing number are beginning to seek an Internet-only solution, paying separately for services they use."

GNN is aimed at the latter group. In addition to the free information it currently offers, the service will be expanded to include a wide range of pay-per-use features provided by third parties.

GNN can be found on the WWW at <http://www.gnn.com>.

VOD becoming an interactive loss leader

By Raymond Snoddy

Video on demand is turning out to be the loss leader rather than the "killer application" of the interactive media revolution, according to a study on Digital Video by the Stanford Research Institute. SRI International believes video on demand, as substitute for renting video tapes, would attract subscribers to an interactive network. The problem would be cost.

SRI says that, at least in the short-term, digital broadcasts offering near video on demand - showing a small number of hit films at staggered starts so that the viewer is never more than 15 or 20 minutes away from the

start of a movie - will be "the right service" compared with full-service VOD technologies.

So if VOD is not going to be the financial engine which will drive interactive networks, what will?

SRI points out that the most obvious users - interactive shopping and advertising - are hardly out of the conceptual stage. The problem with both is that they require substantial amounts of bandwidth and use of the video servers that hold database information. This use is "free" to the customer but not to the operator. "Compared to VOD, where a purchase of a movie guarantees a certain amount of revenue for network utilisation, an interactive

shopping application could have customers exploring the virtual mall all day, only to end without any purchase," says SRI. In the longer term, when the cost of bandwidth comes down, such a scheme may be feasible. But for the crucial transition phase "it is uncertain to say the least."

As a result, everyone from network operators to equipment suppliers, is trying to include business applications into the package. In its trial in Omaha, Nebraska, US West, the regional US telephone company, is moving to a network which can include services for smaller businesses and professionals working from home. "On the vendor side, companies such as Oracle, which

focused only on residential TV, are now tailoring their technologies for business applications as well," says SRI.

It believes another short-term "right service" is downloading interactivity by broadcasting such things as games to a terminal in the home. Digital direct broadcasting by satellite in the US has surprised most observers with its early successes. The fact that consumers are prepared to pay quite significant amounts for more programmes and better quality sound and pictures is a good sign for the longer term, says SRI.

Digital Video - Leading Company Strategies SRI International Europe Menlo House Park, 4 Addiscombe House, Croydon, CR0 5TT, England

The time has arrived to get virtually drunk

By Louise Kehoe

The Internet site includes close to 1,000 pages of inside information about winery owners and wine makers and their products. There is a question and answer section where visitors can ask Granoff, the Cork Dork, for recommendations on the best wine to fit a dinner menu or his opinion on a particular vintage.

Virtual Vintards will give Internet users the chance to bid on eight lots of fine wines. Founded last year by Master Sommelier Peter Granoff, Virtual began selling wines via its Web pages four months ago.

Browsers on the Web have a treat in store next weekend when they will be able to participate in the exclusive Napa Valley Wine Auction, an annual charity fundraiser supported by some of California's most prestigious wineries.

Virtual Vintards will give Internet users the chance to bid on eight lots of fine wines. Founded last year by Master Sommelier Peter Granoff, Virtual began selling wines via its Web pages four months ago.

Dividend & interest payments

By Raymond Snoddy

The following table lists the dividends and interest payments for the week commencing June 5, 1995. The figures are annualised and are based on the latest available information. Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

TODAY

Trace Computers 0.55p

Wesco 3.75p

Wynnfield 0.50p

Yates 2.50p

ZENITH 0.05p

Full Bank Int'l Fin'ls Inv Stb VRN

\$184.72

BUSINESS TRAVEL

Dowgrading 'ended'. Dowgrading is all but over for business travellers, according to Carlson Waggoner, the business travel agency, Scheherazade Daneshzhu writes. In a survey of 300 business travellers, decision-makers and those who book travel, 80 per cent said that there had been no change in the class of travel available to them over the past year.

Nevertheless, 31 per cent of decision-makers said that their company had tried to cut costs by downgrading the class of travel or hotel. Just over 20 per cent said that they

made fewer business trips while 18 per cent said they made shorter ones. However, 23 per cent of business travellers expected an increase in the number of trips in the coming year, while 61 per cent thought the volume would remain unchanged. Almost three-quarters of business travellers doubted that new technology such as video-conferencing would reduce their travel.

Four in five business travellers prefer non-smoking flights, while half would be prepared to fly on an aircraft with seats facing to the rear.

New Russian route

Transaero, a private Russian carrier, last week started regular daily flights between Moscow and St Petersburg, breaking the 20-year monopoly of Pulkovo Airlines.

Transaero, which initially is only offering one flight a day in each direction on Russia's most profitable domestic route, plans to use western-made Boeing B-737 jets. Pulkovo Airlines uses Russian-made Ilyushin Il-86 and Tupolev Tu-154 aircraft. It operates up to four flights a day in each direction. Transaero, which started with a single plane in 1990, now flies 19 regular routes.

Hotel return to Beirut

Marriott is to open a 174-room hotel in Beirut in September. It will be the first new western-managed hotel in the city since the end of the civil war in 1990.

Situated at a development which includes a shopping mall in the Jounieh district, the hotel will also have a business centre.

• Hilton International has opened its eighth hotel in Egypt. The Burj Al-Arab Hotel in the Red Sea is a leisure development but is also aimed at the incentives market.

Peace boosts Belfast

The peace process has boosted passenger numbers at Belfast International Airport, which handled 160,000 travellers last month - up 28 per cent on the same period last year. A total of 776,000 people have used it so far this year compared with 673,000 for the same time last year.

Competition between the airlines on the London-Belfast route has been an important factor in the airport's growth, said managing director Jim Doman.

Both British Midland fly to Belfast from Heathrow airport, while Air Belfast flies from Stansted to Belfast and Emerald European from Luton to Belfast.

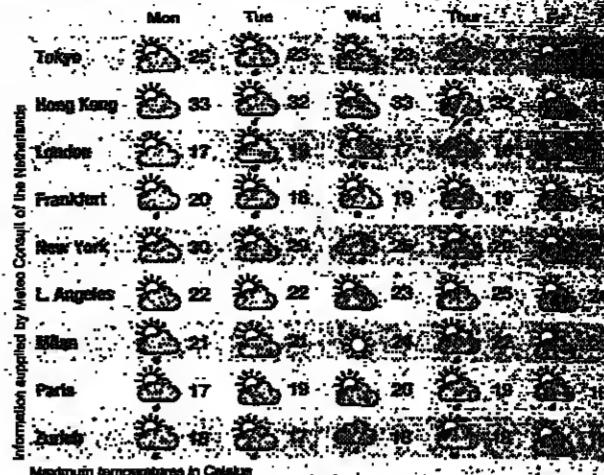
Aircraft strike-bound

Pilots at KLM Royal Dutch Airlines have called a second day of strike action for next Thursday in protest against pay and conditions, the Dutch VNV pilots union said on Friday.

The strike will affect most flights leaving Amsterdam's Schiphol airport on Thursday, and will be the second in as many weeks. Both sides say the crux of the dispute is productivity and a reduction in costs.

• Alitalia pilots plan to hold a 24-hour strike on June 23 in protest at restructuring plans.

Likely weather in the leading business centres



For the
Jeremy Isaacs

Species flocks to favourable habitat

Workaholic travellers are increasingly choosing executive floors on hotels, says Christine Buckley

Business travellers who never stop working are increasingly common. On aircraft, they constantly tap at computers, pausing only to frown at passengers watching the film. Once at their destination, they are likely to group in favourable habitats where they need encounter no other form of life.

In hotels, the compulsive executive is usually to be found in executive enclaves - floors catering exclusively to executives and offering an office-from-office. These provide fax, computer hook-ups, office and boardroom facilities. Some even have separate entrances and check-ins to shield business travellers from other guests.

There are now executive floors in most five-star hotels in business locations, particularly in the US. In Europe and the Middle East and Asia they are catching on fast.

The Marriott hotel in Dubai has a wing reserved for executive guests, with a separate entrance and check-in. Jan Heesheen, head of marketing at Dubai's Marriott, says that while the rooms all have computer points, fax facilities and so on, the executive lounge is one of the main attractions: "It is a haven for networking. You get quite a lot of contacts being made."

In Nicosia, the Cyprus Hilton recently opened an executive wing with 84 rooms. Hong Kong is another sanctuary for the terminally hardworking. The Marriott there has four executive floors,

offering three lounges and a private study facility, complete with individual workstations with computer and e-mail connections, phones, faxes, photocopiers - even a reference library.

At the Tokyo Hilton, five floors are devoted to executive use. Andrew McCullagh, head of research and development in corporate marketing at Hilton International, says that business travellers increasingly want to work around the clock. "We have specially trained staff in our executive floors who have office skills and are encouraged to develop a working

relationship with the guests," he says.

Of Hilton International's 160 hotels, 70 now have business floors. In the US there are two-thirds of Marriott's hotels have executive rooms on one or more floors, and most of its international developments, such as those in San Juan, Puerto Rico and Budapest, feature executive floors.

The executive workhorse is here to stay, according to research by hotel chains. This year Sheraton launched its business traveller programme in Europe and Israel after a survey of executive guests revealed

that their requirements for office and technical back-up were growing.

It found that more than half of business travellers carry a laptop, and nearly all require a 24-hour business centre. All Sheraton's hotels in Europe and Israel now have 24-hour business centres.

Hyatt Hotels found that 72 per cent of business customers feel more pressure to produce results on business trips than they did five years ago; 58 per cent of respondents said they spent more time working in their rooms than they did five years ago.

In contrast to the 1970s and 1980s, when self-indulgence was a significant feature of business travel, Hyatt found that 31 per cent of those surveyed said their productivity while abroad was the most important aspect of business travel.

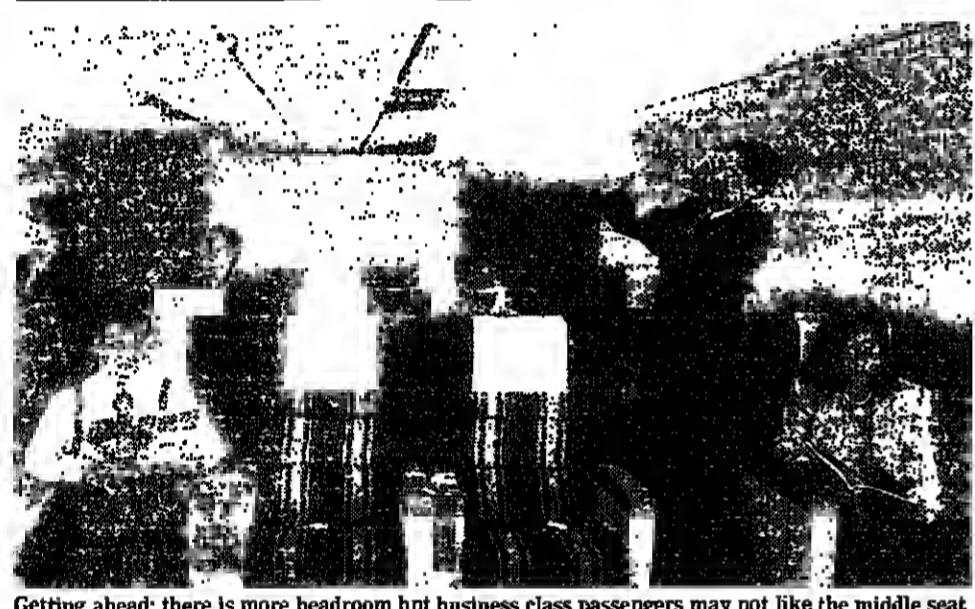
Only 13 per cent dared to say they felt the need for free time.

On the back of its findings, Hyatt introduced its business plan for 85 hotels in the US and Canada. Business guests find a workstation in their room complete with phone, fax, and computer link, and have 24-hour access to printers, photocopiers and office supplies.

But even non-stop workaholics cannot live by phone and fax alone. What of the creature comforts on executive floors? Hotels are generally keen to offer plenty of traditional extras, which often make such accommodation cost-effective from the corporate point of view.

The premium charge for executive class accommodation may run to about 20 per cent, although in Hyatt's case it is only \$15 a day. For the extra outlay you usually get a "free" breakfast, snacks and drinks. Such items can easily add up to more than the executive class premium if paid for on top of a standard accommodation charge. On an executive floor, rooms are usually larger than standard ones.

With all this on offer, it is not surprising that more and more executive workhorses insist on being hooked into these exclusive enclaves.



Getting ahead: there is more headroom in business class passengers may not like the middle seat

Journey in space for passengers

The first thing passengers will notice when they board the United Airlines Boeing 777 for its inaugural flight on Wednesday is the space.

In building the 777, which makes its first flight from London to Washington DC, Boeing has managed to give passengers the impression they are walking into a room rather than a metallic tube.

The key to the 777's sense of space is the overhead lockers, which swing down from the ceiling rather than protruding from the walls. The lockers allow 4in of headroom in most of the cabin - an improvement of 4in on a 747.

For those who have difficulty reaching the overhead lockers, a footrest has been built into the handle of the seat to enable them to climb up.

Life should be more comfortable for those waiting to board the aircraft. Each doorway is individually heated.

The seats in the cabin of the 777, Boeing's first new aircraft in 13 years, are wider than on its earlier models. United, which has 292 seats on the aircraft, says market research, "carried out at great risk", revealed that passengers' bottoms have become bigger.

United says its first class seats on the 777 are three inches wider than their equivalents on the Boeing 747 and 767. In economy, seats are 1 1/4in wider than on the 747.

One disappointment for passengers might be how many seats there are in each row of the United aircraft. In business class, the seats are in a 2-2 configuration. This means that in the central seat bank, business class passengers have people sitting on either side.

In economy, the seats are in a 2-4 configuration, so that the central passenger has to squeeze past two passengers on his or her way to the toilet.

At least, however, having reached the toilets, passengers will find them better behaved. Boeing has acted to end the problem of noisy toilet seats. Instead of slamming down unexpectedly, and making frightening banging noises when the aircraft flies through turbulence, the seat on the 777 descends gently and quietly.

Those who find the configuration of the seats in the cabin a bit of a squash can console themselves by watching some

thing. All passengers, including those in economy, have their own personal screens.

Eventually, all 777 passengers will also have their own telephones. They will be able to receive and send faxes from their laptop computers. Passengers will also be able to set up conference calls from the aircraft. The particularly lazy will be able to telephone a passenger in another seat.

Finally, if your reading lamp fails, it can be replaced by a flight attendant. On earlier Boeing models, this requires the attendance of a mechanic after the aircraft has landed.

Michael Skapinker

ARCHITECTURE

Public display of the good and bad in British design

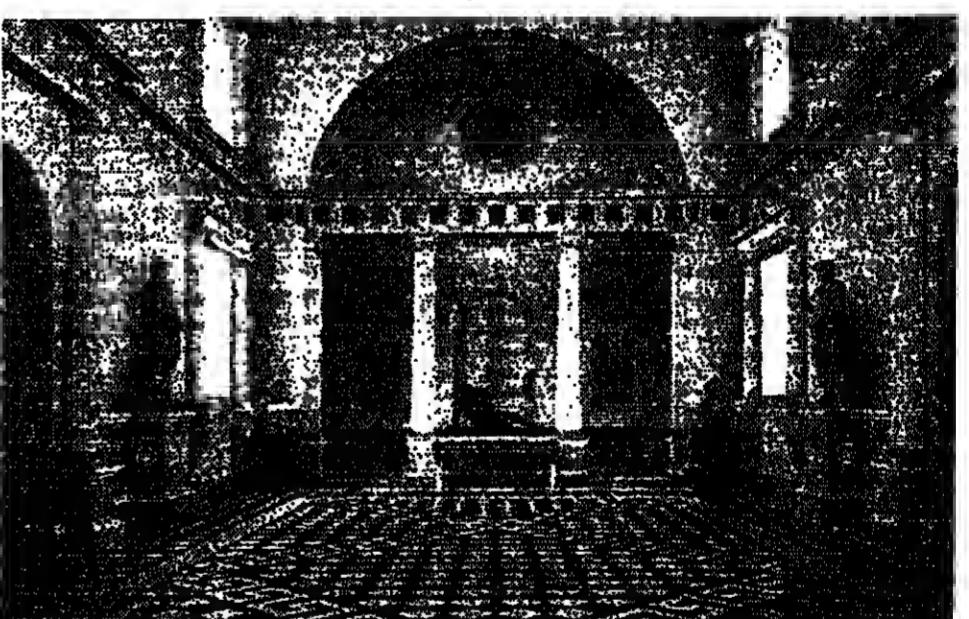
Colin Amery assesses the Royal Academy's Summer Exhibition

This year's Royal Academy Summer Exhibition again gives the general public a rare view of the state of the art in architecture. It has its limitations, not least of which is its obligation to hang the work of the architect members of the Academy. This is fair to the members, but unfair to the public because it gives a false view of the condition of architecture.

Gallery five, where architecture is concentrated, looks very much more spare and dignified. It is dominated by two paintings by the architectural artist, Ben Johnson. One of them, a view of The Rookery Building in Chicago, is remarkably decorative and more flamboyant than usual from this artist. It is hung very thoughtfully, because The Rookery Building was a pioneer in the use of decorative glass and next door to the painting is a model of Richard McCormac's Southwark underground station with its wonderful wall of glass by the artist Alex Beleschenko. This great curved wall is like the eye of a giant insect - silkscreened with a delicate pattern it will be a glorious glittering backdrop for tubs travellers. There is another model of the station in the exhibition and it shows what a wonderful thing the London Jubilee Line extension is going to be. It is an inspired act of patronage to have commissioned a group of younger architects to create the new world underground.

The Summer Exhibition gives visitors a good opportunity to study at close quarters the proposals for London's South Bank by Sir Richard Rogers. These plans have just received substantial Lottery money to explore their feasibility. The idea of giant glass wave along the river initially might seem "exciting", but can it be right to put all that awful concrete junk (also known as the Hayward Gallery and the Queen Elizabeth Hall) under a glass dome?

As it stands it looks the most impractical and barny scheme yet to have been funded by the Arts Council. If there is as



In Marble Halls by Ben Johnson can be seen in Gallery Five at The Royal Academy

much money floating around from the Lottery as we have been led to believe, then there is a great deal to be said for the clearing the site (leaving the Royal Festival Hall) and building a decent art gallery for temporary exhibitions, shops, houses, flats and hotels. This could restore a sense of the city to the place. Why does the South Bank not feel as agreeable as Covent Garden or St James's? If those who hold the building culture's purse thoughts of the answers to that question they might turn on the right track to rescue the South Bank. Sir Richard Rogers's Impossible to maintain glass roof should be seen for the mad folly it is.

The British Embassy in Moscow is another sad example of patronage - this time by the Foreign Office. It is a particularly dim design by Ahrends, Burton and Koralek - incredibly disappointing for a prestigious commission. How are the architects selected for these important jobs? They must be chosen by visually handicapped civil servants with no sense of style or quality. Does the British ambassador in Moscow really want to work in what looks like a pri-

mary school of the 1960s. There is a lot of amusement to be had from the designs for the Cardiff Bay Opera House - surely the whole competition was a hoax? Here is Zaha Hadid's scheme for all to see - another example of official madness and the strange power of fashion that seems to make some people feel nervous if they do not follow it.

One member of the RA who

did not care whether he was in fashion or not was the late The Crosby. He had a marvellous sense of humour and the Exhibition wall of his sketches and drawings shows that he was indeed the Hoffnung of architecture.

Wit is in incredibly short supply and you certainly do not look to Sir Norman Foster to supply it. But you do look to him to show a cool elegance and architectural dignity that is unmistakable and of superb quality. What a tragedy that he is not designing a new gallery for the Tate at Banksy. That would have produced one of the masterpieces of the late 20th century. It is always worth going to look at the Sackler Galleries at the Royal Academy which Sir Norman Foster inserted so brilliantly.

ARTS GUIDE

INTERNATIONAL

JAPAN

NETHERLANDS

FRANCE

GERMANY

CATHAY PACIFIC

CONNECTIONS

From 43 cities around the world we offer you the most convenient connections around Asia and also to 14 cities in China with our sister airline Dragonair. Cathay Pacific

Samuel Brittan

Beware of the new Victorians

I have devoted space (on the right) to an all too abbreviated extract from *Jane Eyre* as a corrective to the new fashion for Victorian virtues. If Mr Brocklehurst's school orphanage is meant to show the superiority of voluntary philanthropy, give me the impersonal reciprocal obligations of the welfare state.

Victorian values have been in the news since Lady Thatcher's endorsement of them. But their most systematic recent defence has been by Gertrude Himmelfarb in her *The Demonisation of Society*. The reason why rightwing radicals are interested is clear. They want to show that the heyday of free markets was not one of unrelied profit seeking, still less of personal gratification. The Victorian ethos took duties as seriously as rights and emphasised an obligation to help the unfortunate, as well as the personal virtues of sobriety, thrift, work, family obligation and much else.

Himmelfarb's book is a good one, so long as we realise that it is the work of a defence counsel. Much was admirable about the Victorian age: above all the vibrant energy that can be seen today by a traveller crossing the bridges, viaducts and tunnels of Brunel's Great Western or gazing at the town halls of northern England. Moreover there was the passion for improvement, whether of cities or sanitation, and for self-education. There was the spirit of optimism – later transferred to the US – that big problems could be tackled.

There is so much both to admire and to deplore in the activities and attitudes of all ages that it is slightly absurd to be for or against them *in toto*. But if forced to a verdict, I still stick to what I wrote in *Capitalism and the Permissive Society*: "Personal liberty was effectively limited to male heads of household over 21. Women and children had as few rights as the subjects of the eastern despots condemned by contemporary Liberals."

Mr Brocklehurst nodded... "I find that a lunch, consisting of bread and cheese, has twice been served out to the girls during the past fortnight. How is this? I look over the regulations and I find no such meal as lunch mentioned. Who introduced this innovation?..."

"I must be responsible for the circumstances there," replied Miss Temple. "the breakfast was so ill-prepared that the pupils could not possibly eat it; and I dare not allow them to remain fasting till dinner time."

"Madam, allow me an instant. You are aware that my plan in bringing up these girls is, not to accustom them to habits of luxury and indulgence, but to render them hardy, patient, self-denying."

Should any little accidental disappointment of the appetite occur... the incident ought not to be neutralised by replacing with something more delicate the comfort lost, thus pampering the body and obviating the aim of this institution... A brief address on those occasions would not be mistimed, wherein a judicious instructor would take the opportunity to refer to the sufferings of the martyrs... When you put bread and cheese instead of burnt porridge, into these children's mouths, you may indeed feed their vileness, but you little think how you starve their immortal souls."

Charlotte Brontë, *Jane Eyre*

"If freedom is defined as the absence of coercion, there was precious little for the schoolboy or soldier of the period, both of whom were also victims of the passion for flagellation which was (and to some extent still is) the real English left."

Her most intriguing point is the switch, which she much dislikes but never quite explains, from Victorian talk of "virtues" to modern talk of "values". This is not just moral laxity. Part of it arises from the extreme difficulty that the late Victorian philosophers, picking up where David Hume left off, found in establishing objective standards of moral values. Bertrand Russell worried about this to his dying day. One result was the emergence of the fact-value distinction which social scientists have stressed to stop their subjects becoming just propagandists.

The danger of simply calling for a moral revival has obviously occurred to Himmelfarb. Her own epilogue is followed by an afterthought in which she distances herself from the "curious combination of puritanism and promiscuity" which makes up the American vogue for political and moral correctness, and which has given rise to concepts such as "date rape" and "phallocentric thinking". A new Victorianism, if given its head, is likely to acquire struggling rivals.

Costain, the weakest of the large contractors, has been seeking a partner for its construction and engineering business this year. But in spite of initial interest from Bovis, the construction management arm of the P&O shipping group; and Skanska, the Swedish construction group, no serious taker has emerged.

Previous bad experiences of taking stakes in UK construction companies may explain why continental European contractors have been slow to

Like farmers and taxi drivers, the UK construction industry seems as though it is never satisfied. Output is up, and close to the peak years of 1988-91. Yet the sector's recent results season has been notable mainly for the gloom of the contractors which have reported some of their worst-ever results.

The contracting and engineering divisions of nine of the UK's largest construction groups earned operating profits last year of just over £100m (£157m) from a combined turnover of more than £9bn.

The results mask an even bleaker domestic performance as profits included earnings from overseas work and were bolstered by at least £30m of interest on advance payments from customers – causing more complaints from sub-contractors over delays in passing on the money.

But the meagre yield has not been caused by a shortage of work. The value of construction output last year rose 6.5 per cent to £49.3bn, the first annual increase since 1990 and the fourth highest figure on record. Even after allowing for inflation, the volume of construction work rose 3.2 per cent. Adjusted for inflation, last year's figure was 5.6 per cent higher than in 1987, generally regarded as a good year.

The problem is that there are still too many companies chasing jobs. Weaker businesses which might have been expected not to have survived the recession have pulled through, providing competition for larger rivals. Companies have been forced to bid down prices to win work. Mr Martin Laing, chairman of John Laing, has criticised banks for propping up "unfeebled contractors".

Mr Joe Dwyer, chief executive of Wimpey, says there is a strong need for consolidation to improve the industry's profitability. But there is little sign of an increase in mergers or joint ventures. Few have the wherewithal or the will to acquire struggling rivals.

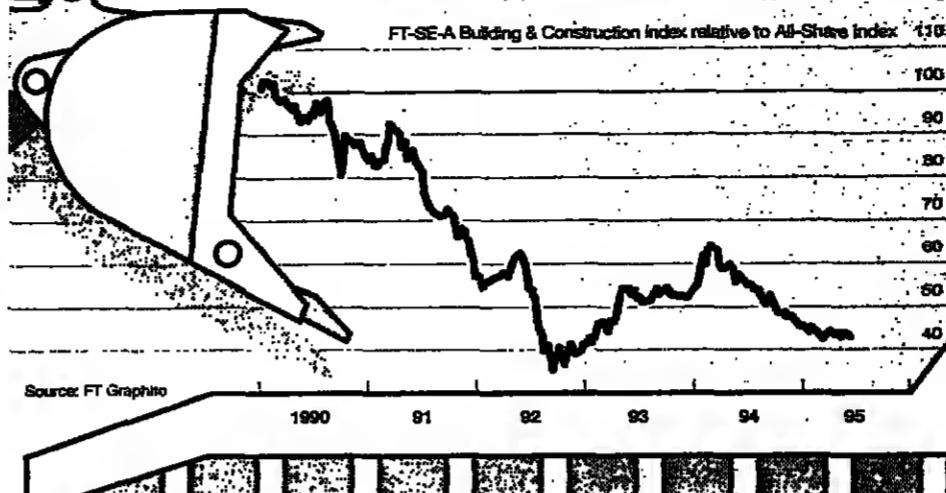
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Malin contractors have warned that further job losses are inevitable. In April, Taylor Woodrow announced plans to

Shaky edifice of uncertainty

Competition is fierce as too many companies chase construction jobs, says Andrew Taylor

UK construction industry: no pick-up yet



Source: FT Graphite

panies in other advanced countries for such work is intense. Local construction industries are also emerging in many of these countries, which are capable of competing domestically and internationally.

The other hope for many is the UK government's private finance initiative, which offers the possibility of involvement in infrastructure projects such as roads and railways, and capital spending on public services such as prisons and hospitals. While contracting margins are low on such projects, the returns can be increased by taking an investment stake in them.

The government's initiative seems unlikely to provide immediate relief for contractors, however. "Many schemes will be unable to start until next year at the earliest and it could be several years after that before profits can be taken," says Mr Stockdale.

They may also be little to improve margins in the industry. Contractors are concerned that civil servants, accustomed to awarding public-sector contracts at margins of 1 per cent or 2 per cent, have failed to accept that higher returns will be required to justify the increased investment risk.

The scale of preliminary bids to prepare for bids to private finance projects for the first four design, build, finance, operate and maintain rail link to the Channel tunnel.

Coping with such uncertainty means that contractors face much higher costs in preparing bids for private finance projects than for traditional public-sector contracts. Meanwhile, infrastructure construction, which remains largely funded by the public sector, is likely to fall 8.5 per cent this year, according to Construction Forecasting and Research, which previously provided construction forecasts for the National Economic Development Office.

The value of construction company shares has declined more than 50 per cent against the FT-SE All-Share Index in the past five years and by a quarter in the past 12 months. On present trends, this fall is unlikely to be reversed in the coming year.

'Cash is flowing out of many businesses and margins are under pressure'

Sales of new houses

have performed better than the general market, but are still falling. In the first four months of this year, 27 of the largest house-builders recorded a 3 per cent fall in net reservations – agreed sales on which a deposit has been paid less cancellations – compared with the corresponding period last year.

There is strong pressure to increase sales this year, since builders have started about 10 per cent more development sites than last year in anticipation of a market pick-up. This could put pressure on prices if sales remain weak; when a

similar situation arose in the final two months last year there was as a surge in discounts and sales incentives as builders sought to hit targets.

The UK housing market, which last year provided a cushion for contractors with house-building operations, has started since last summer.

'Cash is flowing out of many businesses and margins are under pressure'

are struggling to get off the ground, builders must cope with rising prices for raw materials. The suppliers have been more successful in reducing capacity than builders, and have been putting up their prices. While volume sales have still some way to catch up with the peak of the late 1980s, cement and plasterboard profit margins are not far behind previous record levels.

UK cement profits at Blue Circle, Britain's largest supplier, rose 78 per cent last year to £64.1m, helped by a 15 per cent increase in volume sales. Operating margins rose from 13 per cent to 20.2 per cent.

These returns are in stark contrast to the dreadful results from builders and civil engineers. "Cash is flowing out of many businesses and margins are under pressure all around," says Mr Mark Stockdale, an analyst at S.G. Warburg.

Many are now looking overseas, in markets such as south-east Asia, the returns are typically much higher than in the UK. But competition from com-

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Legal complexity of space operations not yet fully tested

From Mr John B. Gant.

Sir, I read with interest the "Patenting orbits" (May 31) editorial. Aside from the complex issues of patentability, there are important international law issues to be considered. Most of the nations of the world are parties to the Outer Space Treaty of 1967. The treaty states that outer space shall be "free for exploration and use by all States without discrimination" and is "not subject to national appropriation by claim of sovereignty, by means of use or occupation, or by any other means".

The granting of a US patent is a sovereign act of the federal government with its basis in article I, section 8 of the constitution. Certainly, to the extent the claims in any US patent with regard, for example, to a satellite communications system, seek protection for the use of bands of orbits in space, such as the medium earth orbits proposed for use by certain mobile satellite communications service operators, serious questions arise with respect to the international treaty obligations of the US. The supreme court has held that rights granted under a US patent cannot interfere with the foreign commerce and treaty-making powers of the federal government. Thus, there

are the foreign commerce and treaty-making powers of the federal government. Thus, there can be no argument under US municipal law of a conflict between the 1967 treaty obligations and the rights obtained in a US patent.

By applying its patent law to

Intelligence that makes for the best leaders

From Mr John R. Stance.

Sir, Kudos to your Lucy Kellaway and her timely, discerning "Turning the tables" (May 31) piece on "360° feedback" and its newest mutation, 540°.

Managers do, indeed, need to know how they and their decisions are perceived – all leaders must have this intelligence about themselves. They do not need to be humiliated in the presence of those they lead and their work compromised in the process. The compound folly is to compensate managers or what a closed micro group of confederates might conjure up about them – for whatever reasons.

Alas, 360° degree feedback often induces a double black-mail syndrome along the lines of: "Employees: 'Take special care of us, manager, or we'll turn you into a memory.' or the reverse, Manager: 'Listen, people, make me look good in this 360° thing or woe to thee.' Both tacks are common in this fad and dramatically distort findings.

Excellent, norm-based, culturally adjusted forms of

upward consulting through anonymous employee opinion surveys have existed for decades. They provide the desired end of knowing without the collateral risk of damage to all parties. First-class input on the most sensitive leadership or other matters is gleaned from this technique without destabilising the delicate equilibrium that exists between any leader and the cadre he or she leads. One cannot suspend organisation realities to counsel managers on their behaviour and its effects. Leadership on its best days can anguish the souls of those who accept that calling. Many able managers have long memories for those who make summary or ill-informed judgments on their conduct. In the end, the greatest risk of 360° feedback is to employees.

Let us hope Lucy Kellaway's thoughtful, insightful analysis is heeded where decisions on these matters are made. John R. Stance, International Survey Research, 303 East Ohio Street, Chicago, Illinois 60611, US

Latin answer to re-naming Ecu

From Mr John Rossell.

Sir, Surely there is one European currency on which everyone could agree: the old Latin *libra pondi* ("a pound by weight"), which was originally of silver in medieval Europe and down to the 18th century turned into a widely varying array of local currencies *libra, livre, lira, pfund, pound*, or indeed *punt*.

John Rossell, 98 Sturtin Street, Cambridge CB1 2QA, UK

generally denoted by the sign £.

A European unit could be universally shown as the £E which to be dropped after a few years while users in each country could go on calling it a *libra, livre, lira, pfund, pound*, or indeed *punt*.

John Rossell, 98 Sturtin Street, Cambridge CB1 2QA, UK

UK has only itself to blame for sterling's ERM exit

From Mr Wolter Grey.

Sir, Nearly three years after the event, there is still talk about sterling's "forced" exit from the European exchange rate mechanism (The FT interview: "Chancellor at a crossroads", May 26).

In fact, the "humiliation" was self-inflicted and could easily have been avoided. Leaving aside the strategic error that the UK did not join the ERM from the outset (in March 1979), and then joined it too

late (in late 1990) to avoid chancellor Nigel Lawson's inflationary excesses and the severe recession that followed (and was already under way), we also did so at too high a rate, because of the high interest rates needed to curb those excesses, as some (including the Bundesbank privately) pointed out at the time.

Subsequently, we compounded that grave tactical mistake, moreover, by persistently refusing, right up to the

very eve of Black Wednesday itself, to agree to a general ERM realignment, repeatedly proposed in the wake of the exceptional stresses of German reunification, under which sterling's (and other currencies') overvaluation against the D-Mark has been underpinned and, so far, sustained that recovery.

It's an ill wind... Walter Grey, 12 Arden Road, Finchley, London N3 2AN, UK

At the top of the page, a large photograph of a tea cup and saucer. Below it, a smaller photograph of a tea cup and saucer. To the right of the tea cup and saucer, a small logo for Garanti Bank.

GARANTI BANK

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July 1995

FINANCIAL TIMES

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Monday June 5 1995

Hands across the ocean

The proposal by US secretary of state Warren Christopher for wide-ranging talks on US relations with the EU is a clear acknowledgement that the transatlantic partnership needs attention. Similar sentiments have been voiced by political leaders in Europe, and there are good reasons for action. But first, greater clarity is needed about what can be achieved.

The current debate stems not from any immediate crisis. Rather, it reflects the realisation that the end of the cold war has changed the cement which held it together for half a century. The underlying concern is that without firmer foundations for their dialogue, the two sides might drift apart.

In truth, the perceived difficulties in the US-EU relationship are only one manifestation of a wider confusion in the two sides' foreign policies as they struggle to redefine priorities – and, harder still, to mobilise a domestic consensus behind them. In the US, coherent policy-making has been made harder by tensions between the Democratic administration and Republican-controlled Congress, many of whose members appear to favour a limited US international role. In Europe, there is uncertainty about how far the EU can or should aim to develop a common foreign and security policy.

It is easier, however, to describe the symptoms than to prescribe a remedy. Mr Christopher was rightly cautious about endorsing calls for a Transatlantic Free Trade Area (Tafta). Such a proposal risks creating more problems than it solves. Not only are there relatively few important barriers to transatlantic trade. Those that remain, notably in agriculture and textiles, proved impervious to seven years of negotiations in the Uruguay Round. Bilateral

efforts to remove them are more likely to succeed and could merely stir up ill feeling.

Issues such as the treatment of foreign direct investment, services standards and product testing may offer more scope for constructive dialogue. However, it would be more fruitful to pursue many of these goals in the World Trade Organisation, where they are set to feature high on the future policy agenda. For the US and the EU to try to advance too far on their own could divert their attention from multilateral liberalisation priorities.

The government seems likely to provide some relief for example.

"Many schemes are able to start up at the earliest and several years after the profits can be seen," says Mr Stockdale.

Mr Stockdale, who may also do more to encourage contractors to offer civil servants, among

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S Africa parliament will debate Zulu deaths

Inkatha's dispute with ANC likely to worsen

By Roger Matthews

In Johannesburg

The increasingly bitter row between South Africa's ruling African National Congress and the mainly-Zulu Inkatha Freedom party is likely to worsen this week, following President Nelson Mandela's surprise decision to call an emergency parliamentary debate.

The debate will hinge on Mr Mandela's admission on Thursday that, in March last year, four weeks before the general election, he instructed guards at the ANC headquarters in central Johannesburg to shoot to kill if the building were attacked during an IFP protest march.

Whether the building came under attack on March 28 is disputed, but all sides agree that eight IFP members were shot and killed outside the ANC headquarters. After 14 months, police

investigations have not yet yielded any charges. More than 50 other people died in political violence in the greater Johannesburg area that day.

Senior ANC members said yesterday that Mr Mandela was fully entitled, under international and South Africa law, to order people to defend themselves, although the members made no attempt to explain why the president had chosen to raise such an inflammatory issue now.

ANC officials added that Mr Mandela had not instructed anyone to be taken but, because he was concerned about the safety of senior ANC members, had reminded the guards of their right to self-defence.

The IFP, which is in a dispute with the ANC over the regional powers to be granted to Kwa-Zulu-Natal under the final South African constitution, yesterday called on the police to press mur-

der charges against Mr Mandela. It said the president would also be held personally responsible for meeting civil claims arising from the killings, which total more than R10m (\$2.7m).

The relationship between Mr Mandela and Chief Mangosuthu Buthelezi, leader of the IFP and home affairs minister in the coalition government of national unity, seems to have hit new lows because of the mutual recriminations of the past few months.

Chief Buthelezi has repeatedly accused Mr Mandela of having reneged on an agreement, reached in April last year, to let the IFP demands on the future of Kwa-Zulu-Natal be the subject of international mediation.

The president has said he agrees with international mediation, but adds there is no need for it because the necessary constitutional machinery exists.

India's first 'untouchable' chief minister is sworn in

By Shiraz Sidhva in New Delhi

A woman from India's poorest caste has been sworn in as chief minister of Uttar Pradesh, the country's most populous state, in a move that could alter the balance of India's caste-based politics ahead of a general election due in early 1996.

Ms Mayawati, former general secretary of the Bahujan Samaj party, is the first Dalit or "untouchable" to head a state government in the country.

Her appointment follows two days of hectic political activity after her party withdrew its support last week for a coalition of lower caste parties and staked its claim to form an alternative government in the state.

At the simple swearing-in ceremony on Saturday night thousands of Ms Mayawati's supporters flocked to the sprawling lawns of the former British gov-

ernor's residence in Lucknow, the state capital.

A 42-year-old law graduate and former teacher, Ms Mayawati has a reputation as an outspoken firebrand. She proclaimed that as chief minister her first priority would be to improve law and order in the state. Assuring the state's Moslems of her support, she said she was now headed for all sections of society, not just the so-called backward castes.

Ms Mayawati is backed by Mr Kanshi Ram, maverick leader of the BSP, who is being treated for a heart ailment in a New Delhi hospital.

Mr Ram is trying to expand his party to national level. He says he chose Ms Mayawati to head the Uttar Pradesh government because he hopes to train her to become the country's first lower-caste prime minister.

Ms Mayawati is not a member of either of two houses in the

state legislature and will have to prove she has a majority in the assembly within 15 days. The BSP has only 69 members in the 425-member state legislative assembly. But the party claimed in a letter to the Uttar Pradesh governor on Thursday that it had the support of over 200 members.

Prominent among Ms Mayawati's supporters were leaders of the Hindu rightwing Bharatiya Janata Party, marking the first time in Indian politics that the upper-caste Hindu party has joined hands with a party representing those which it has traditionally oppressed.

Political observers are unsure how long she will be able to continue in this uneasy alliance with upper caste Hindus. "Her sharp tongue and her inborn hatred for the upper castes will soon make enemies of these strange bedfellows," a Congress(I) leader and MP said yesterday.

EU divisions

Continued from Page 1

Rifkind, the UK defence secretary, reopened Conservative party divisions on Europe by warning Britain could lose control of its own destiny if it joined a single currency.

Mr Rifkind, seen as a possible successor to Mr Douglas Hurd as foreign secretary, said sterling's entry into a single currency would be irreversible. Speaking on BBC1 television he said he did not want to see a single currency imposed by politicians, just because the economies of member states had converged on a single day in a single year.

Former Soviet debt talks

Continued from Page 1

Intervening to stall the dollar's slide. Real interest rates have remained extremely high, with the central bank refinancing rate standing at 195 per cent. The tumbling yields in the Russian Treasury bill market have also increased the attractions of holding rouble-denominated debt instruments.

"The rouble has begun to squeeze foreign currencies from our national market and the de-dollarisation of the economy is underway," said Mr Anatoly Chubais, first deputy prime minister in charge of economic policy.

Yet despite a severe monetary squeeze, inflation has remained stubbornly high. Monthly inflation fell only marginally to 7.8 per cent in May compared with 8.6 per cent in April. The slow rate of decline will make it hard for the government to cut the monthly rate of inflation to 1 per cent by the year end as agreed with the IMF.

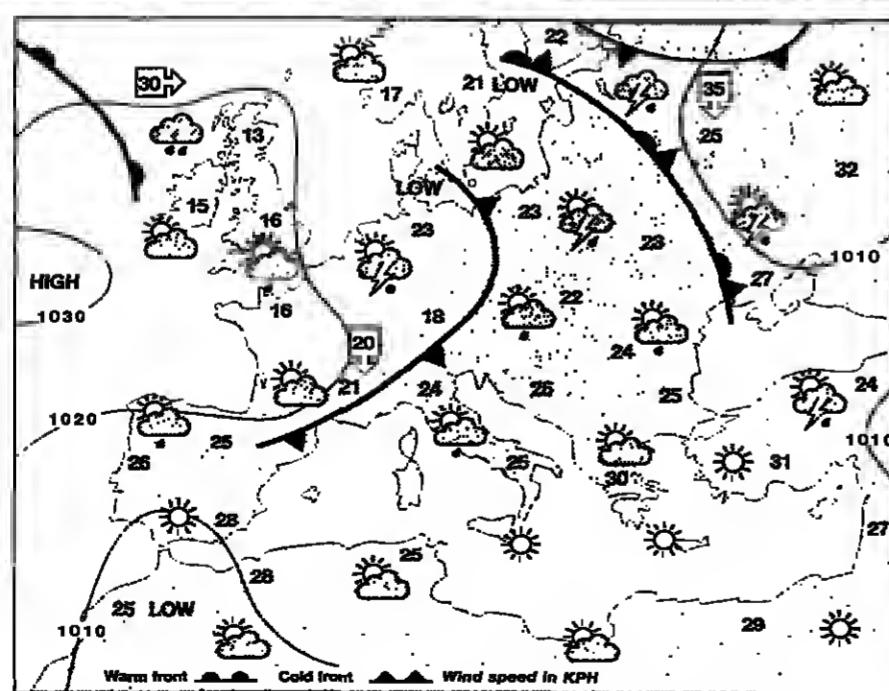
Although the money supply grew by just 3 per cent in the first quarter of 1995, it shot up in April. Cash-strapped Russian enterprises and farms are expected to intensify their lobbying of the government for cheap credits to keep them afloat.

The proposal is expected to be considered at the next exchange board meeting on June 21, although it may be delayed by changes to the 11-member board.

Local brokers, however, are not united on the issue. Small securities companies which could be targets for significant foreign investment are said to oppose the new curbs as are Thai securities houses which have overseas ambitions.

It is large brokerages with a substantial local retail base that are behind the move. They stand little chance of receiving much foreign equity participation because it would be too expensive for foreigners to obtain control of them.

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FINANCIAL TIMES COMPANIES & MARKETS

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Monday June 5 1995



WOLESELEY
pic
The world behind the scenes

MARKETS THIS WEEK

BRONWEN MADDOX: GLOBAL INVESTOR

Brokers have spent weeks trying to guess the level of the dollar's floor. Now some have revised theories of investment on the basis of sectors rather than countries. However, the analyses do not present a convincing case and they suggest the opposite: the importance of local factors rather than global ones in determining the performance of stocks. Page 20

ROBERT CHOTEA: ECONOMIC EYE

The prospect of increased trade between the industrialised countries of the north and the developing south has often caused anxiety. In the 1950s and 1960s, for example, the south worried that competition from the north would hamper its industrialisation. In the 1990s, the north fears competition from the south, with its lower wages, is threatening its jobs and incomes. Page 20

BONDS:

A heavy downgrading for the US economy, but it is in full swing on the bond market. Almost every economic statistic last month indicated that six interest rate increases since February of last year have been manifested in the form of slower growth. Page 22

EQUITIES:

Improved investor sentiment towards international equity issues was confirmed by last week's successful placement of three large initial public offerings in Portugal, the Netherlands and Sweden. Page 21

EMERGING MARKETS:

Stock markets in Africa south of the Sahara, one of last year's best performing sectors in the emerging markets, have paused for breath in 1995. Page 21

CURRENCIES:

Foreign exchange markets will again this week be trying to make sense of the dollar and grapple with last week's conflicting information. Page 21

COMMODITIES:

The Vossey Bay road show comes to London today. Those wanting to know more about what is being hailed as North America's biggest base metals discovery for decades will get their chance at a presentation on the nickel, copper and cobalt deposit. Page 20

UK COMPANIES:

Bank of Scotland, which faces a small shareholder's resolution to limit directors' pay is seeking to change its regulations to make it more difficult for such resolutions to be put. Page 18

INTERNATIONAL COMPANIES:

Advance Bank, the Sydney-based commercial bank, is to acquire the state-owned Bank of South Australia for A\$730m (£329m). The merged group will be Australia's largest regional banking business, with assets of more than A\$19bn. Page 19

STATISTICS

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Arjo plans to buy US coated paper group

By Patrick Harverson in London

Arjo Wiggins Appleton, the Anglo-French paper group, will announce this week the acquisition of a US coated paper manufacturer for \$56m-270m (£36m-110m).

The group is also poised to buy a Portuguese paper merchant in a move that will consolidate Arjo's position as the largest paper distributor in Europe. The two acquisitions will be financed by cash.

Arjo plans to spend another £130m-£140m upgrading manufacturing facilities at the US acquisition and at Appleton, its US carbonless paper maker.

The combined £200m investment is cen-

tral to the plans of Mr Cob Stenham, chairman, and Mr Alain Soulas, chief executive, to address the problem of Arjo's fast-maturing US business.

Although Appleton has been Arjo's biggest profit generator in recent years, the carbonless paper market is rapidly maturing and the unit is under additional pressure from rising raw materials prices and competition from larger US rivals.

Such is the concern about Appleton's earnings outlook that several City analysts who visited the US company last week lowered their profits forecast for Arjo when they returned to London.

Arjo hopes these concerns will be eased

by the acquisition of a coated woodfree paper manufacturer. Coated paper, which is used for glossy publications such as magazines and catalogues, is the fastest growing segment of the world paper industry.

The deal will help assuage disappointment at last year's failure to buy S. D. Warren, the US coated paper manufacturer. Arjo lost out when a much higher £150m offer from Sappi, the South African paper group, was accepted by Scott Paper, Warren's US parent.

The acquisition of a merchanting company in Portugal, meanwhile, will complement Arjo's pulp operations in that coun-

try and add to the list of European paper merchants recently acquired by Arjo.

Last month, the group paid £5m for two Italian merchants and announced the acquisition of a stake in a Hungarian distributor.

Arjo has been attempting to buy the paper distribution operations of Holvis, the Swiss non-wovens and paper distributing company, which is the subject of a bid battle between BBA Group, the UK industrial and engineering company, and International Paper, of the US.

The Portuguese deal, which is expected to cost Arjo about £20m, should be clinched within a few months.

Deposits fall at UK investment banks

By Geoff Dyer in London

Deposits held at UK investment banks fell by nearly 10 per cent in the two months after the collapse of Barings, according to figures published by the Bank of England.

Deposits at UK investment banks fell to £24.8bn (£74.4m) at the end of April from £26.7bn at the end of February, when Barings' problems first became apparent.

A senior executive at a UK investment bank said this was "the result of the climate of uncertainty affecting the merchant banks" since the collapse of Barings - since taken over by Internationale Nederlanden Group, the Dutch bank.

He said events at S. G. Warburg, the UK investment bank, especially its aborted merger talks with Morgan Stanley, of the US, had also affected the sector. Warburg is now being bought by Swiss Bank Corporation.

Recent figures from the British Bankers' Association showed a rise in deposits at the UK clearing banks. Deposits at Barclays rose to £295bn by the end of April, from £283bn at the end of December.

Analysts believe corporate treasurers and fund managers are moving cash to the clearing banks because of concerns about the stability and capital strength of the investment banks. The Bank of England's figures show sterling deposits by the UK private sector dropped to £12.1bn at the end of April from £14.6bn at the end of February.

The trend in the inter-bank market is less clear. Sterling deposits are slightly down over the first four months of the year, albeit with large monthly swings. However, foreign currency deposits have fallen 12 per cent to £5.02bn since the end of February.

One senior banker said the investment banks faced "a permanent problem" from fund managers who were under pressure to diversify cash holdings.

But it was "too early to predict the effect the Barings crisis will have on the inter-bank market".

This was only the third time in 35 years that the investment banks had faced a problem of confidence in the inter-bank market, he said. The other two occasions were after the secondary banking crisis of 1973-74 and the 1987 stock market crash.

This week: Company news

'Buried treasure' warms brokers to footsie entrant

Europe's largest equity investor in private companies, is expected to report its assets of £350 to £360 a share when it announces its first interim results since flotation on Thursday.

This figure would represent about a 1 per cent increase in NAV over the 12 months a year earlier against which the flotation was priced. The group, which entered the FT-SE 100 index last year, is also expected to announce a 10 per cent dividend, which some brokers believe will be as modest as 1 per cent.

Analysts believe the interim results - announcement, 9.4% growth - are expected to begin the process of selling off 10 per cent of the group's shares.

There are still plenty of the high street shares and the Bank of England, the other shareholders of the institution which was founded in 1945.

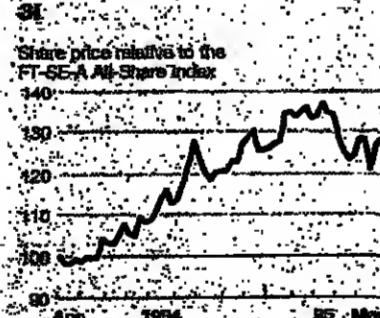
This will bring the free float of the company to about 70 per cent.

Increasing the liquidity of a stock that has been in short supply for institutional investors that require a weighting in FT-SE 100 stocks. Since flotation at 220 - a 10.5 per cent discount to NAV - 31's shares have outperformed the FT-SE index by about 25 per cent.

Brokers building the book ahead of the share sale to institutions will be pointing out that these mix-in figures are based on NAV's struck at March 31, 31's year end. They will argue that 31's portfolio of over 3,000 private

companies contains significant "buried treasure", the value of which is not reflected in its asset value. The accounts for about half the portfolio companies, they argue, have year-ends at June 1994. There is therefore a lag before the benefit of economic recovery in the UK in the ensuing period will be reflected in their accounts and, consequently, those of 31.

On the other hand, it is a cyclical stock and NAV's highly geared to the UK's economic cycle.



OTHER COMPANIES Variable vintage for water utilities

Anglian Water today kicks off a busy week for the UK water sector, with five companies reporting annual results in the final year of the original pricing regime. Only one of the five, Yorkshire Water, is expected to follow North

Water's example by unveiling a special dividend for both shareholders and customers. At least two, Thames and Welsh, could well depress with disappointing results from the non-core businesses. Anglian is forecast to

produce profits excluding exceptional of about £220m (£365m) today, against £192.2m last time. The market is

looking for about £230m from Thames Water, which reports tomorrow against £241.7m last time. On Wednesday,

Yorkshire is pencilled in at about

£170m, against £154m before

exceptionals. Northumbrian takes its

turn on Thursday with profits expected to rise from last year's £27.1m to about £28.5m. Finally, Welsh ends the week on Friday with profits expected to fall to £130m, after further non-core losses, against last year's £144.2m.

■ Valmet: The Finnish paper machinery and engineering group will rebound into the black when it reports figures for the first four months today, even though it forecast losses for the period as recently as February.

Machinery deliveries have been ahead

of schedule and the strengthening

markka has cut interest payments on foreign debt. Analysts believe profits could reach £110m (£230m) after a £10m deficit a year ago.

■ BAA: The privatised airports group will get some respite today from the public inquiry into Terminal 5 at London's Heathrow airport when it publishes its results today. Analysts are forecasting pre-tax profits for the year to March of £360m-£370m (£572m-£588m), up from £322m.

■ Schwarz Pharma: Germany's new issue handwagon moves along this week with the announcement tomorrow of terms for the postponed Schwarz Pharma share offer.

The expanding pharmaceutical company, with sales of DM852m (£621m) and net income of DM70m last year, delayed its issue - expected to raise about DM250m - from March because of the weak state of the stock market as the D-Mark soared.

■ De La Rue: The market expects the

UK-based security printing group, to produce pre-tax full-year profits tomorrow of about £145m (£230m), which would amount to a 12 per cent increase on last year's figure. Earnings per share of about 54.5p are forecast, against last year's 47.5p. One point of interest will be the performance of Garry, a supplier of security equipment to the German banking industry. Mr Jeremy Marshall, chief executive, said in March that Garry was experiencing tough trading conditions which were eroding margins and that profits, which last year were £5m, were expected to be halved at the year end.

■ Emap: Also today, the fast expanding UK-based media group is expected to produce pre-tax profits of £62m-£63m (£98.5m-£100.2m) when it announces its results for the year to April. During the year, the group acquired the European publishing interests of Maclean Hunter for £50m, 28 magazines in France, many from Editions Mondiales, for a total of £107.8m and took control of Trans World Communications in a deal that valued the radio group at about £70.8m.

■ Schwarz Pharma: Germany's new issue handwagon moves along this week with the announcement tomorrow of terms for the postponed Schwarz Pharma share offer.

The expanding pharmaceutical company, with sales of DM852m (£621m) and net income of DM70m last year, delayed its issue - expected to raise about DM250m - from March because of the weak state of the stock market as the D-Mark soared.

■ De La Rue: The market expects the

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shares have risen 27 per cent, hitting another high on Friday with a 1.5% gain to 341.5p.

The rally has lifted the Bank of

New York's stock market rating from that of a money centre bank to one more akin to a super-regional.

The question now is whether it can justify a premium rating that would lift its shares still further.

Mr Renyi, who was named last

December as successor to Mr

Bacot when the long-time chair-

man retires in three years' time,

promises a continuation of the

current strategy - and no sur-

prises. The bank will not make

COMPANIES AND FINANCE

Laura Ashley denies US bid threat

By Roger Taylor

Laura Ashley, the clothing and furnishings group, moved swiftly yesterday to quash press reports of a potential takeover bid from the US.

Speculation centred on Sir Bernard Ashley, widower of the founder, who holds 34 per cent. The company said: "Sir Bernard has no intention of selling his stake. The company itself has received no approach." It added that Sir Bernard and the board "fully agree about the direction of



Sir Bernard Ashley: has 'no intention' of selling his stake

Bank of Scotland to protect directors' pay

By William Lewis

Bank of Scotland, which faces a small shareholders' resolution to limit directors' pay at its annual meeting, is seeking to change its regulations to make it far more difficult for such resolutions to be put.

The bank, which is celebrating its tercentenary this year, has called an extraordinary meeting on June 20, the same day as its annual meeting. One of the proposals would end the right of individual voting shareholders - known as "proprietors" - to put forward independent resolutions at the AGM. This provision has been in place since 1920; however, the bank says it is "unusual in modern company practice".

It wants to change the rules so that only shareholders representing "not less than 5 per

cent of the total voting rights" will be able to put down resolutions. The proposed amendments would also permit a group of at least 100 shareholders "on which there has been paid up an average sum per proprietor of not less than 100" to initiate resolutions.

The proposed changes are likely to make the bank the next target of PIRC, the corporate governance consultancy. Last week at British Gas's annual meeting PIRC's resolution, critical of the directors' new pay packages, was voted down by institutional shareholders.

At the bank's 298th AGM, shareholders will vote on a resolution put down by Mr J H Mann, a small shareholder, who is proposing a formula to limit directors' pay and benefits for executives.

The Bank's annual report shows that the total emoluments of Sir Bruce Patullo, governor and chief executive, rose by 15 per cent from £266,000 to £277,000 last year.

In a note to shareholders, Sir Bruce recommends that they vote against Mr Mann's resolution, which he describes as "unworkable".

The bank follows the Cadbury Committee's recommendations "completely" on setting directors' pay, Sir Bruce says. "Members of the remuneration committee have very considerable expertise on which to draw and there is no evidence that the bank has acted irresponsibly regarding directors' remuneration."

At the EGM the bank is also seeking shareholder support for a new share option scheme for executives.

Direct Line can take deposits

Direct Line, the telephone based insurance company, has received a licence to offer deposit and bank accounts from the Bank of England.

And Direct Line Financial Services, its rapidly growing offshoot plans to add a savings product.

Mr Jim Spowart, managing director of Financial Services described the move as "the next step to Direct Line becoming a diversified financial services group".

However Direct Line said it would be limiting

itself to savings products and had no plans for a current account.

Direct Line, a Royal Bank of Scotland subsidiary, began business offering car insurance over the phone in 1984, and has been expanding into new areas over the past two years. Initially, household and life insurance were added. Then Direct Line Financial Services, began offering unsecured personal loans last year and this year launched a mortgage service.

NEWS DIGEST

Redland revamps US tile business

Monier, which makes bricks in Australia and New Zealand, Monier Inc accounts for about 20 per cent of Redland's US sales of £200m. Profits have been falling since 1993 and it is expected to break even in the current year.

De La Rue sale

De La Rue, the security printing group, is selling Portals Engineering, which manufactures weighing equipment and paper counting machinery, to a management buy-out team for £10.3m.

Portals Engineering was acquired as part of the £82m takeover of the Portals group last December.

De La Rue is also looking for buyers for JR Crompton, which manufactures tea bag paper.

Toy Options float

Toy Options, which distributes last year's best-selling Biker Mic from Mars toy range, has announced a placing price of 65p for the 5m shares being sold in its flotation. This values the company at £3m.

The issue, sponsored by City law firm Taylor Johnson Garret, will raise a net £2.7m.

RIT loss at £1.1m

RIT Capital Partners, the growth capital investment trust managed by J Rothschild Capital Management, reported a net pre-tax loss of £1.1m for the year ended March 31 1995

Limited disclosure still excites

Jim Kelly considers the reporting of the Big Six accountancy firms

At about 10.30 this morning the UK's Big Six accountancy firms - Coopers & Lybrand, KPMG, Andersen, Ernst & Young, Price Waterhouse and Touche Ross - will simultaneously multi-fax each other with their annual "results".

For a profession which prides itself on staying cool and calm, today is an exception. As a senior partner at one of the Big Six puts it: "My partners and staff will be in a crescendo of excitement."

Ironically these firms, built largely on the provision of statutory audits to companies, are among the few institutions in the UK which do not produce annual reports and accounts.

At the moment this is a right they do not intend to relinquish.

The law does not require them to produce annual public accounts but they choose, collectively, to provide fee income data, supplemented by a breakdown by sector and total numbers of staff and partners. This data is insufficient, to say the least.

Profits and losses are not revealed and the income figures are based on gross client fees. Comparability, one of the key features of exemplary accounts, is difficult. Not all the firms have the same year end, and some differ in the way they collect and organise the information.

Increasing diversification

also makes comparison difficult. Arthur Andersen, through its sister firm Andersen Consulting, is seen as venturing off into new markets, providing "out-sourced" services such as personnel and information technology for instance.

Most of the other Big Six would prefer not to be compared with Andersen, especially as it continues to grow

that incorporation will mean the publication of full financial results for the whole firm. It would still be able to contribute to the fee table, but a full set of results, including partners' remuneration, would attract much wider interest.

Although the fee income table may be in its last years - most of the big firms admit to some interest in following KPMG - there will still be plenty to learn from today's figures. They indicate both the individual fortunes of the firms and that of sectors of the economy.

All eyes will be on the rise of Andersen. Last year it rose to third place, from fourth, with income of £433m. It was sixth three years ago.

During the year it joined forces with parts of Binder Hamlyn and is likely to take a large slice of its fee income, of about £100m, into its own total. Coopers & Lybrand's top position with income of £560m last year, looks unassassable, although KPMG will be looking over its shoulder.

Ernst & Young, Price Waterhouse and Touche Ross will be looking for a return to significant growth. In 1993-94, they recorded fee income growth of 3.8 per cent, 0.6 per cent, and -0.8 per cent respectively. Touche Ross, a leader in large insolvency work, had been badly affected by economic recovery.

Mr Colin Sharman, KPMG's senior partner, has promised

more quickly than they do.

KPMG has taken the most high-profile step along the road to establishing a separate identity by setting out to incorporate its audit practice. It hopes the move will protect its partners from the growing tide of litigation facing the profession. If it goes ahead, the fee income table will never be the same again. It says it is close to a final partners' vote on the issue.

Mr Colin Sharman, KPMG's senior partner, has promised

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
International Paper (US)	Holvis (Switzerland)	Paper & Board	£257m	Increase too late?
Banco Bilbao Vizcaya (Spain)	Probrusa (Mexico)	Banking	£223m	Majority stake plans
Merck (Germany)	VWR Corp (US)	Chemicals	£148m	Upping stake to 46%
Candy (Italy)	Unit of Maytag Corp (US)	Domestic appliances	£108m	"Strategic" Hoover sale
Handelsbanken (Sweden)	Units of Skopbank	Banking	£85m	Develops regional strategy
Deutsche Bank (Germany)	Finanza & Futuro (Italy)	Financial services	£75.7m	DB continues Italy growth
Hogg Robinson (UK)	Bennett Travel (Scandinavia)	Travel Services	£58.5m	Volvo/Co-op sale
Stagecoach (UK)	Rodoviaria de Lisboa (Portugal)	Transport	£6.3m	First continental Europe step
AlliedSignal (US)	Polymer und Filament Rudolstadt (Germany)	Textiles	n/a	Nylon springboard
CRA (Australia)	Potasio Rio Colorado (Argentina)	Mining	n/a	Option for 80% stake

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However, we believe that the increase in prices will be reflected in the growth of the economy. The firms are using the opportunity to get work done, and we are doing much more work today. We are doing well, and we are a classic case of a typical outcome of the growth in the economy.

The deal comes amid signs of a further shake-up in the Australian banking industry, with a number of state-based banks

— in some cases, government-owned — tipped to change hands in the near future.

Some analysts say this process will enable the "big four" commercial banks to consolidate their position, while others suggest that a new group of "super-regional" will be created.

Advance wins contest for state-owned BankSA

By Nikki Tait in Sydney

Advance Bank, the Sydney-based commercial bank, is to acquire the state-owned Bank of South Australia for A\$38m (US\$25.4m). The merged group will become Australia's largest regional banking business, with assets of more than A\$15bn, and about 400 branches.

The deal comes amid signs of a further shake-up in the Australian banking industry, with a number of state-based banks

— in some cases, government-owned — tipped to change hands in the near future.

Some analysts say this process will enable the "big four" commercial banks to consolidate their position, while others suggest that a new group of "super-regional" will be created.

Advance's surprise victory in the auction for BankSA appears to favour the second scenario. Westpac, one of four national banks but with a relatively low profile in South Australia, had been rumoured as the most likely buyer.

Some analysts suggested that Advance had paid a high price for BankSA, which made an interim profit of A\$3.2m after tax in the last half-year — particularly because the cost of pruning overlapping operations would be limited.

However, Mr Jim Service, Advance's chairman, said the deal would give it access to new markets and a broader customer base, "continuing geographic expansion which began in the Australian Capital Territory and more recently continued in south-east Queensland".

Norwegian bank bid rejected

By Karen Fossel in Oslo

Norgeskredit Holding, an emerging Norwegian financial services group with assets of Nkr60bn (US\$16m), has rejected an acquisition proposal from Christiania Bank, Norway's second-largest bank.

The proposal would have been transformed into a formal bid by the bank, but Norgeskredit found the terms unacceptable.

"We didn't obtain the necessary support from the board of Norgeskredit for our proposal to acquire the company," said Mr Ludvik Sandnes, Christiania's finance director.

Christiania said it was considering making a cash offer

for the company on May 23, when Norgeskredit shares were suspended on the Oslo bourse.

The shares last traded at Nkr198, but fell Nkr14 on Nkr124 on Friday on the news that negotiations had been wound up. Christiania's shares were suspended on Nkr13.50.

Mr Christian Sveas, chairman of Viking Supply Ships, Norgeskredit's second-largest shareholder with a 12.5 per cent preference shareholding, said the proposal founded on both the price and the strategy put forward by Christiania.

He said the price offered by the bank was market capitalisation plus a "slight" premium. Before Norgeskredit's shares

were suspended, the company's market capitalisation was about Nkr1.5bn.

"We would have hoped for a better offer, but on the other hand, it was the only offer," Mr Sveas said.

Had Christiania acquired Norgeskredit, the bank would probably have been forced by the authorities to shed Finansbanken, a local bank with assets of Nkr3.5bn acquired by Norgeskredit last year for Nkr340m.

Finansbanken was acquired to boost Norgeskredit's profits, which have languished for some time. A consortium of institutional investors had been committed to buying Finansbanken.

Swedbank issue oversubscribed

By Hugh Carnegy

in Stockholm

Swedbank, the biggest bank in the Nordic region by asset value, has taken a step out of the shadow of the loan-loss crisis that hit Swedish banks in the early 1990s by announcing that it has raised Skr3.5bn (US\$480m) in an international share issue that was three times oversubscribed.

The issue means Swedbank, created in 1992 by the amalgamation of 11 loss-hit savings banks, will join Sweden's other two leading commercial banks, Svenska Handelsbanken and Skandinaviska Enskilda Banken, on the Stockholm stock exchange. Trading begins on June 9.

Proceeds from the issue, in which a 22.6 per cent of the bank was sold, will be used by the savings bank foundations which remain Swedbank's principal owners to pay down debt which the govern-

ment guaranteed as part of measures to help them through the loan-loss crisis. They will be able to reduce the debts to Skr2.5bn from Skr6bn.

Some 63m shares were sold to the Swedish public and Swedish and international institutions, valuing Swedbank at Skr15.5bn. Swedish savers and other retail buyers paid Skr53.84 per share. Institutional buyers paid Skr6.8, well above the minimum average set by Swedbank of Skr5.1.

Mr Svennur said the promotion of share ownership would contribute to strengthening Germany's economy and financial markets.

He noted that Germany lagged behind other countries: its stock market capitalisation is only equivalent to a quarter of gross domestic product, against 70 per cent for Japan and the US and 125 per cent for the UK.

Only 5.4 per cent of Germans own shares compared with 21 per cent in the US, 17.5 per cent in Britain, 10 per cent in France and 35 per cent in Sweden.

German personal equity plans proposed

By Andrew Fisher

in Frankfurt

A group set up to promote share ownership in Germany has proposed the introduction of personal equity plans like those in the UK, France and Belgium to relieve growing pressure on the state pension system.

"The ratio of pensioners to employees will rise drastically in coming decades," said Mr Helmut Loehr, chairman of Deutsche Aktieninstitut (German share institute). "Thus, the increased encouragement of private provision for the needs of old age will be essential."

The institute, an independent body supported by banks and companies, envisages a scheme in which each income taxpayer can invest a certain sum in shares of equity-based investment funds. This could be offset against tax, with capital gains and dividends tax-free if reinvested.

Noting the government's present problems, Mr Rüdiger von Rosen, general manager of the institute, said the scheme would only lead to a small reduction in tax revenues. "In the future, however, the relief for public finances would be enormous."

The institute's initiative comes as German equity markets are under increasing pressure to become more flexible, innovative and open to the needs of investors and companies. Deutsche Börse, which runs the Frankfurt stock and futures exchanges, last week announced a strategy for full electronic trading and more new issues.

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Welsh utility tests Czech waters

Vincent Boland on an important foreign foray for a UK group

After 30 months of negotiations, Welsh Water is finally going Bohemian. The UK utility will announce today that it has taken a significant minority stake in the Czech Republic's biggest private-sector water and sewerage operator as it seeks to expand beyond the highly regulated British market.

A private company on October 1 1993, following the government's innovative coupon privatisation programme, in which Czech citizens exchanged vouchers for shares in state companies.

Last year, the company had turnover of Kč1.5bn (US\$4.4m) and reported pre-tax profits of Kč130m.

Privatisation divided the Czech water industry into "owners", mainly local authorities which own the distribution infrastructure, and operators, which provide the services. SCVK is an operating company, and has a 15-year contract with the local authorities to provide services to the region.

Welsh Water has bought 20 per cent of SCVK from the National Property Fund, the Czech state holding company, and a further 15.6 per cent from two domestic investment funds. Other funds, which have become influential shareholders in Czech industry following privatisation, own 38 per cent, but Welsh Water will clearly be in the driving seat.

SCVK provides water and sewerage services to nearly 1.2m people in industrial northern Bohemia. It became

member main board and one on a five-person supervisory board. It may also help to finance modernisation of the infrastructure through loans to the "owners" company, if the municipalities are unable to find cheaper alternative sources of funding.

Czech consumers have seen water prices soar since 1990 as a result of privatisation. For more than 40 years until 1989, the year of the Velvet Revolution that ousted communism, a cubic meter of water cost 60 hellari (about 1.5p), aided by massive state subsidies.

It now costs just over Kč8 (22p), as companies seek to rebalance prices between domestic and industrial users, says Mr Karel Bahnik, SCVK finance director.

Czech water prices are regulated by the finance ministry, which approves the structure of pricing, and by the local authorities, which set limits on margins. Mr Bahnik favours adapting the UK system of regulation, which is tied to inflation, to the Czech Republic. Under the British model, he says, "you know better where you are going".

Prices are expected to rise further as subsidies are

finally removed; Mr Bahnik expects cross-subsidisation between domestic and industrial prices to be phased out by 1999. But the issue is likely to become more and more politically sensitive in the run-up to next year's general election, and operators may have difficulty justifying further big rises.

Welsh Water estimates that water prices as a percentage of family income cost about 1 per cent in the Czech Republic and 1.2 per cent in Wales. Though prices may have to rise, Mr Rosser says increases do not need to be substantial.

SCVK is one of the few Czech operators to have retained its large customer base after privatisation, making it attractive to outside investors. Much of the rest of the country is now serviced by dozens of smaller private operators, and consolidation is inevitable.

That could bring further opportunities: Mr Rosser believes the market is attractive. "It may well be we will look at other opportunities in the industry in the Czech Republic and the model may be mirrored elsewhere in central Europe," he says.

NEWS IN BRIEF

Thomson to extend its US interests

Thomson Corporation, the Canadian media and package holiday group, is extending its interests in financial services with the purchase of Institutional Shareholder Services of the US, a leading provider of proxy information to investing institutions, writes Tony Jackson in New York.

The Maryland-based ISS, founded in 1985, has become something of a focus for shareholder activism among US institutions. It specialises in analysing the proxy statements of corporations and alerting fund managers to matters affecting their interests. It claims to be the largest provider of proxy analysis and voting agent services to the

institutional market.

Thomson will acquire ISS through a Maryland-based subsidiary, CDA Investment Technologies, which analyses the ownership of corporations and the performance of managed funds. Mr James Heard, president of ISS, said CDA's electronic distribution would allow ISS to provide new services more rapidly.

The group, 79 per cent-owned by Assicurazioni Generali of Trieste, nevertheless described the year as "successful", claiming it had gained market share in all the countries in which it operates: Austria, Germany, Hungary and the Czech Republic.

The 52-week figure of R18.63m (US\$1m) compared with R14.77m for the previous 53 weeks, a total reduced to R12.94m by an extraordinary item largely related to goodwill and trademark costs following an acquisition. Turnover advanced 23.9 per cent to

R1.78bn. Foschini controls Oceania Investments, which has a 32.2 per cent stake in Etam, the UK retailer.

group's expansion in central and eastern Europe.

Acacia Resources raises A\$47m

Acacia Resources, the gold mining and minerals group which was spun off as a separately-listed company by Shell Australia last year, raised A\$46.8m (US\$33.5m) via placing of shares on Friday, writes Nikki Tait in Sydney.

The placing was handled by J. B. Were, the Australian stockbrokers, and involved 21m new shares sold at A\$2.34 each. Acacia said the capital was being raised to "secure funding for planned developments, and provides the capacity for the company to pursue appropriate growth opportunities".

Acacia's main assets include a stake in the Boddington gold mine in Western Australia, the Union Reefs mine in the Northern Territory, and the Sunrise Dam project, also in WA.

Non-Financial Organisations in Financial Services

A wide-ranging practical analysis on the past, present and future involvement of non-financial institutions in the financial sector

The traditional boundaries within the global financial services sectors continue to be broken down, not only between different financial institutions, but also between financial and non-financial companies.

It is, therefore, imperative for senior managers in financial institutions to keep up-to-date with the implications for their companies and for non-financial organisations entering the industry to identify areas of opportunity.

Recognising this need, the Financial Times has recently published a Management Report entitled Non-Financial Organisations in Financial Services.

Written by Datamonitor, it:

- examines the factors behind the breakdown in traditional financial service boundaries and explores the implications for established financial companies
- outlines the strategies open to the non-financial organisations and predicts the market opportunities, on a global basis, for the future.

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After weeks of trying to guess the level of the dollar's floor, some brokers have unsurprisingly revived theories of investment on this basis of sectors rather than countries.

Unfortunately the analyses do not present a convincing case. If anything, they suggest the opposite: the importance of local factors rather than global ones in determining the performance of stocks.

Sectoral investment strategies go hand in hand with arguments that industries are becoming more global. Goldman Sachs, the broking house, has made a painstaking analysis of this theory; it devotes much of its latest volume on portfolio strategy to a study of whether the same sectors in different stock markets move "sympathetically".

The calculation tries to allow for the degree to which the overall country indices tend to move together. In a handful of sectors in the US, UK, German and Japanese markets, Goldman discerns a close relationship since the late 1970s, with the US leading the way.

The investment conclusion it draws from these patterns, albeit tentatively, is that investors can use the performance

of US stocks in its selected "global" sectors as a lead indicator on whether to buy or sell similar ones in Japan and Europe.

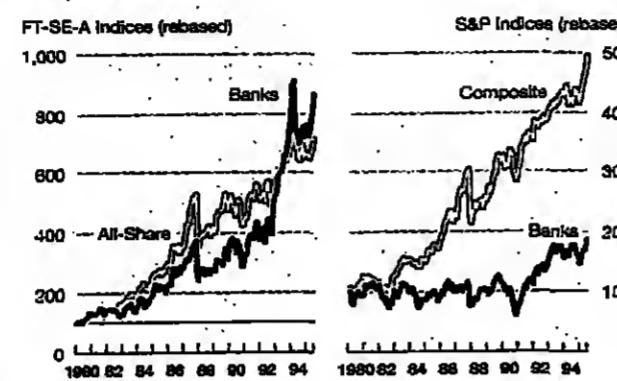
The report finds only three "truly global" sectors: chemicals, pharmaceuticals and food producers. As it points out, there are good reasons why stocks in these sectors should move in tandem, in the commodity end of the chemicals business, prices are increasingly set on an international rather than national basis. Commodity chemical products are dollar-denominated, while Europe essentially operates as a single D-Mark denominated market.

In food, too, companies in different countries face similar costs for raw commodities. Companies in these sectors also follow similar cycles of investment and level of capacity use.

The research raises an interesting question, one which it is not equipped to answer: whether the similar behaviour of stocks in different markets owes something to the conver-

UK Banks

FT-SE-A Indices (rebased)



gence of valuation techniques. As Goldman points out, techniques in valuing brands in the balance sheet in both food and pharmaceuticals have become much more standardised. There are other examples: the valuation of cable companies on the UK market owes much – possibly too much – to the cash flow generation demonstrated on the other side of the Atlantic.

However, to an extent, as Goldman Sachs acknowledges, the patterns it observes simply reflect the last decade's cross-border takeovers, such as Rowntree and R.J.R. Nabisco. In the case of pharmaceuticals, the industry worldwide is now dominated by a handful of multinational companies.

Companies based in different countries are not just performing in similar ways: they are

Total return in local currency to 1/6/95

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.12	0.03	0.09	0.14	0.23	0.11
Month	0.51	0.11	0.38	0.69	0.58	0.56
Year	5.58	2.50	5.05	5.71	8.00	5.06
Bonds 3-5 year						
Week	0.98	1.11	0.81	0.19	0.30	0.43
Month	3.81	3.05	2.22	2.10	2.42	3.33
Year	10.13	6.78	9.61	7.17	9.36	12.13
Bonds 7-10 year						
Week	1.39	1.41	0.31	0.10	0.40	0.66
Month	5.80	4.43	3.19	3.48	4.7	4.70
Year	13.83	12.61	11.16	8.42	3.11	15.38
Equities						
Week	1.0	-0.4	0.2	-0.1	0.6	0.5
Month	4.0	-5.0	4.5	3.0	-2.8	4.2
Year	20.3	-24.4	-0.7	-10.0	17.6	

Source: Com & Banks - Lehman Brothers. The FT-Actuaries World Indexes are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

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NEW YORK

Lisa Bransten

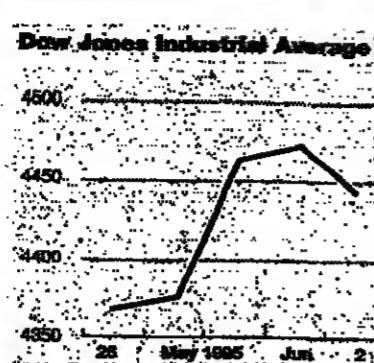
Wall Street steady on rate cut optimism

Given the stunningly weak job figures released last week, stock market investors held remarkably steady. The Standard & Poor's 500 shed just 0.2 per cent and the Dow Jones industrial Average 0.6 per cent in the face of figures that suggested the economy is growing much more slowly than most economists had thought.

Still, stocks got some support from renewed speculation that the Federal Reserve could lower interest rates as soon as next month, allowing the benefits of cheaper corporate borrowing to offset the effects of a weak economy.

This week may be another bumpy one as investors try to figure out how to react to opposing forces. They are not going to get much help from economic data. The most important figure of the week is the producer price index, which is not due until Friday.

Investors will be watching for signs that inflation, which has picked up to



an annualised rate of 3.6 per cent so far this year, is easing enough to allow the Fed to loosen monetary policy. Economists expect producer prices to show a 0.2 per cent increase for May, against April's 0.5 per cent rise.

Today brings the release of data on April home completions, which economists at MMS International believe will have fallen to 1.37m from 1.42m in March. Also important will be Wednesday's release of information on April consumer credit, which economists at MMS believe will drop to \$3.5bn from \$3.8bn in March.

OTHER MARKETS**AMSTERDAM**

KLM, the flagship airline whose pilots staged their first strike since 1988 on May 30, is scheduled to produce annual results on Friday. The strike, which disrupted 60 flights from Amsterdam's Schiphol airport, was expected to cost KLM between F10m and F15m. In the meantime, UBS expects net profits for last year to have quadrupled, rising from F10m to F140m.

FRANKFURT

The run of German corporate results press conferences has been falling off but Thyssen, the big steel group, is listed for a DVFA analysts' meeting tomorrow. Analysts say that with the industry running at full speed, they will be looking for news of price increases and the same would be true of Continental, the tyre company, which holds its annual general meeting on Wednesday.

Mr Adrian Phillips, who heads the German team at Kleinwort Benson, says he will also be interested in any further news of potential family disposals of Thyssen stock.

Rumours were denied on this score earlier this year, but they

never, they argue, had any real effect on the market. It is the lack of what has been learned from the sell-off of the world's largest steel company, US Steel, that has led to a significant new form of trading.

On the same day, Orkla, the conglomerate, reports for its first four months of 1995, and more than doubled net profits are expected after significant cost reductions at both the beverage and media divisions.

ZURICH

Zurich Insurance, which helped lift the market with its forecast of continued profits growth last week, hosts a presentation to analysts on Tuesday on the results for 1994 and the outlook for 1995.

Mr Silvan Zuehl, banking analyst at Bank Sal Oppenheim in Zurich, hopes it will also produce new information on its acquisition policy following the bid for Kemper of the US.

So far, he says, Zurich is strong in industrial insurance and reinsurance in the US, and Kemper would bring in two life companies. More importantly, it would graft a fourth leg on to the group's structure, adding institutional asset management and mutual funds business to the existing insurance tripod of life, non-life and reinsurance.

HELSINKI

Some of Finland's big export groups will put memories of the country's deep 1991-93 recession further behind them this week, when they report results for the first four months of 1995, writes

Christopher Brown-Humes. In most cases the figures will be excellent, due to buoyant markets, hefty restructuring and lower debt loads.

Vahne, one of the world's biggest makers of paper machinery, opens the season today, with analysts looking for a swing of around FIM300m into the black after last year's FIM225m loss.

Wednesday brings reports from Outokumpu, the mining group, and Huhtemaki, the consumer products group. The latter could be an exception to the generally buoyant trend, with profits likely to sink

LONDON

Philip Goggan

Keeping a weather eye on the US

The outlook for interest rates on both sides of the Atlantic is likely to be the dominant factor on sentiment in the London stock market this week.

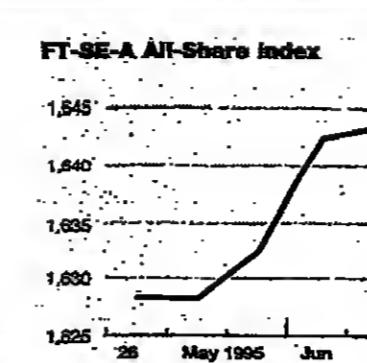
Mr Kenneth Clarke, the chancellor of the exchequer, meets Mr Eddie George, the governor of the Bank of England, on Wednesday. After a run of weak UK economic data, Mr Clarke is generally expected to stick to his view that UK rates should not be increased. After the Bank of England's inflation report, however, Mr George might well press for an increase.

The markets evidently expect Mr Clarke to win the day. Short sterling futures, the market's vehicle for speculating on rate changes, does not signal a rise in base rates from the current 7.75 per cent before the end of September.

Data on manufacturing output and industrial production in April, which could give a clue to the strength of the

UK economy, will not be released until Thursday, after Mr George and Mr Clarke meet. In the current market mood, the weaker the data, the better. The London market has been heavily influenced by Wall Street in recent weeks, however, and traders will be keeping a weather eye on the US.

Friday's employment data raised fears that the US might be heading into recession, but also increased hopes that the Federal Reserve might lower interest rates. One regional US bank reduced its prime rate in response to the news.



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index can reach 10,000 before the year-end, although some consolidation could set in the not too distant future.

TOKYO

Share prices managed to finish higher last week, thanks to comments by Mr Masayoshi Takemoto, the finance minister, over the possibility of the use of public funds to solve the bad loan problems of the country's financial industry, writes Enrico Terazono.

The one cloud on the horizon for Finnish exporters is the strengthening markka, although the real impact from this will not be felt until later in the year.

HONG KONG

Brokers say there is sufficient momentum to chase Hong Kong stock prices higher this week, writes Louise Lucas.

Last week, foreign funds pushed the Hang Seng index to 3,359.74 on Thursday, its highest level in seven months. The exchange was closed on Friday for a local holiday.

In the colony, a belief that interest rates in the US - and therefore Hong Kong, where the currency is pegged to the US dollar - have peaked has helped fuel the current rally.

Brokers now reckon that the

week's attention of market participants will be focused on the package aimed at accelerating the disposal of problem loans, to be announced by the ministry of finance this week.

Over the past few years

investors have been disappointed by the government's various measures to shore up the stock market and the economy.

Compiled by William Cochrane

EMERGING MARKETS: This Week

The Emerging Investor / Joel Kibazo

African exchanges pause to take a breath

Stock markets in Africa south of the Sahara have been pausing for breath in 1995 having been one of last year's best performers in the emerging markets sector.

Gains on the region's 12 bourses not only led some analysts to expect an even better performance in 1995, but the more bullish among them even forecast that the region would provide some of the best returns for the rest of the decade.

However, there is now a feeling that such optimism was misplaced. Ms Elizabeth Morrissey, managing partner at Kleinman International consultants in Washington, believes "there was a lot more talk and hype about Africa last year than action. There were a lot of mad trips to Africa by investors but I don't think a lot of cash went in. Yes, there was investment in Africa, but in the main I think the markets were pushed up by local investors anticipating an inflow of funds from foreign investors."

That anticipation certainly sent the markets soaring and the gains looked impressive. According to Morgan Grenfell, the UK broker, for the year to mid-December, the Nairobi stock exchange showed a 107.5 per cent gain in dollar terms, while Ghana rose by a 55.3 per cent.

Sharp gains were also recorded in Zimbabwe and South Africa, though the Mexican financial crisis last December.

CURRENCIES**Dollar stays focus of market attention**

Foreign exchange markets will again this week be trying to make sense of the dollar. In particular, they will be trying to assess the conflicting information that emerged last week.

On the one hand, the extremely gloomy report on US employment in Friday points the way to lower growth and falling interest rates - a backdrop unlikely to help the dollar.

On the other, an unexpected and rare episode of central bank support for the dollar has reminded the market, painfully in some cases, that selling the

African stock exchanges

Ghana				
Market capitalisation	\$2bn			
Listed companies	18			
Index Year's high	421.28			
Index Year's low	293.72			

Kenya				
Market capitalisation	\$1.4bn			
Listed companies	58			
Index Year's high	474.02			
Index Year's low	344.76			

Botswana				
Market capitalisation	\$261m			
Listed companies	11			
Index Year's high	317.8			
Index Year's low	303.9			

South Africa				
Market capitalisation	\$217bn			
Listed companies	847			
Index Year's high	7053.21			
Index Year's low	5100.91			

Many analysts point to Kenya as such an example. A ban on international investors on the Nairobi stock exchange was only lifted in January and the market surged in December ahead of the rule change. But analysts say this, along with the then strong Kenyan shilling, made the market particularly expensive for the very clients it had hoped to attract.

Poor results from several companies was another reason for the decline.

Other markets have also been the subject of particular local difficulties. In Ghana,

worries about a worse than expected economic performance last year were coupled with concerns on inflation.

Events in Japan, however, will give dollar/yen watchers food for thought, with the release of current account data today, and the quarterly Tanaka survey due on Friday. Evidence that yen strength is delaying the recovery may provide a spur for more determined government efforts to stimulate demand.

The decision last month by Mr Kenneth Clarke not to raise rates was branded as politically motivated, and hence bad for sterling. Subsequent events would appear to have vindicated his judgment, and no change is expected this week.

and, according to one analyst, the withdrawal of "one hedge fund in the wake of Mexico" led to the less than sparkling performance.

South Africa has been partly blamed for the decline seen in other markets. The Johannesburg stock exchange was part of the retreat seen in emerging markets in January. However, it soon recovered, boosted by its inclusion from April in the Morgan Stanley, IFC and Barings Securities emerging market indices.

Analysts believe that interest in the African markets is likely to remain.

Mr Miles Morland of Blakeney Management, a London-based emerging market research firm, says: "I think Nigeria and Kenya are now a terrific speculation."

Kenya has come down to a

more realistic level partly because foreign investors did not rush in and partly because of the decline in the

Kenyan shilling.

In Zimbabwe, uncertainty

about future government policies

following April's general election, continued high inflation

at about 21 per cent, in part fuelled by fears of a

drought, high interest rates

the introduction of new taxes

and, according to one analyst,

the withdrawal of "one hedge

fund in the wake of Mexico"

led to the less than sparkling

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WORLD BOND MARKETS: This Week

NEW YORK

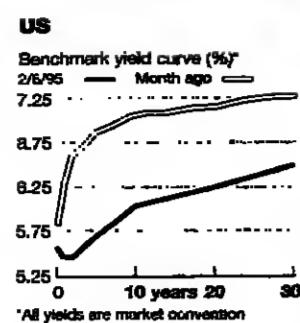
Tony Jackson

After the upheavals of last week, the bond market has some hard thinking to do. May unemployment figures and April leading indicators seemed clear evidence that the economy is slowing at a faster rate than investors had bargained for. This ought to ensure that the Fed will start to ease interest rates - perhaps by 50 basis points - at the next FOMC meeting a month from now.

In that case, the 6.5 per cent yield on the long bond seen on Friday in response to the unemployment data could prove a mere staging post to the 6 per cent target the bulls are now confidently predicting.

If the Fed does not ease, the key question will be whether its continued fear of inflation is overdone. If the answer is 'yes', so much the worse for the economic downturn and so much the better for bonds.

Alternatively, the market might start to reflect that low bond yields mean cheap finance for industry, and a low dollar helps exporters.



All yields are market convention
Source: Merrill Lynch

This Friday's figure for the May producer price index will therefore be worth watching.

The expectation is for a headline figure of 0.4 per cent, or 0.2 per cent net of food and fuel. Anything much more, and last week's euphoria could prove short-lived.

Other figures due this week include May auto sales today, wholesale inventories for April tomorrow and consumer credit figures for April on Wednesday.

LONDON

Philip Coggan

The gilts market will start the week with its eyes firmly on the US after Friday's powerful Treasury bond rally, following the weak employment data.

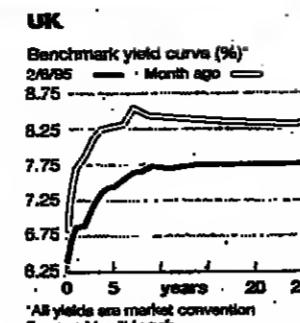
Growing expectations that US interest rates may start to fall will ease even further the pressure on chancellor of the exchequer Mr Kenneth Clarke.

A series of weak UK

economic data since his last meeting with Mr Eddie George, the governor of the Bank of England, in May has already strengthened the chancellor's hand. The two meet again on Wednesday to discuss monetary policy.

"There is no case for the chancellor to raise rates now," says Mr Sanjay Joshi, chief economist at Daiwa Europe in London, "but they may want to raise base rates by half a percentage point from the current 6.75 per cent in the autumn to justify a tax-cutting budget."

Short sterling futures, the market's vehicle for speculating on interest rate



All yields are market convention
Source: Merrill Lynch

changes, do not anticipate a rate rise before the end of September.

Gilts will also be underpinned by the T-bond rally, which allowed the yield on the 10-year gilt to reach a new low for the year last week.

For the moment, the markets appear to be experiencing a re-run of the 1993 rally, and have forgotten the fears about government debt and inflation that dominated 1994 and the start of 1995.

FRANKFURT

Andrew Fisher

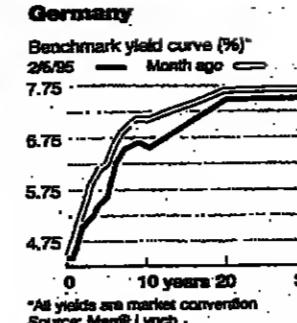
The unexpectedly poor US employment figures are likely to fuel up speculation about another cut in German interest rates, especially with the continuing nervousness in financial markets about the state of the dollar.

A few economists thought the Bundesbank might cut rates at last Thursday's council meeting, but this possibility has now been put off until mid-June, when it next meets in east Germany.

Mr Julian Jessop, an economist at HSBC Markets, said the US data reinforced the view that the next move in US rates would be down.

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All yields are market convention
Source: Merrill Lynch

the German bond market will remain for some time.

If the German economy turns out to be weakening, as some indicators have suggested, and the inflation trend remains favourable, Mr Joerg Henzler, an economist at Dresdner International Research said rate cut

speculation would not wane, in spite of last week's decision to keep the discount rate at 4 per cent and the Lombard rate at 6 per cent. "Hence, the steep gradient of the yield curve in

Bond prices were hit last week by an announcement from the finance ministry over the possibility of public funds being used to help the banks deal with mounting bad loans.

The clean-up of such loans would lift deflationary pressures, offering relief for the stock and property markets, but would take some time to help the real economy, which has been battered by the strength of the yen.

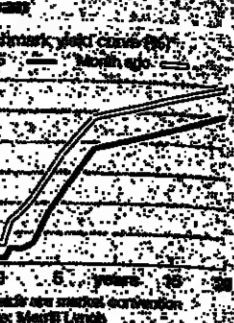
Economic data released last week, including a rise in unemployment and weak industrial production, revealed the extent of the effects of the high yen.

An announcement by Toyota Motor, Japan's largest manufacturer of motor vehicles, that it would cut its graduate intake next year also highlighted the problem of excess labour at

This week, investors will be focused on Friday's Tankan, the Bank of Japan's quarterly survey of business sentiment.

TOKYO

Etsuko Terasawa



All yields are market convention
Source: Merrill Lynch

"It should confirm the economy is weakening significantly, adding to the pressure for another official discount rate cut," says DKB International.

The report is likely to reveal declining business confidence, particularly for small and medium-sized companies, and a downward revision of intended capital investment. It is also likely to confirm the recent deterioration in the labour market.

US Treasuries

Yield-chasers rush to catch up with the rally

Mr Lawrence Lindsey, a member of the Federal Reserve's board of governors, said last week that his job as a central banker was to take away the punch bowl before the economic party gets out of hand; it might not be as much fun but there would be fewer hangovers when it was over.

The party may be quietly ending for the US economy, but it is in full swing on the bond market.

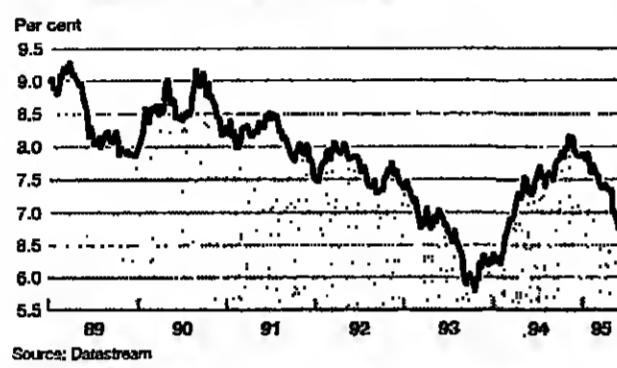
Almost every economic statistic released last month - capped by Friday's weak jobs figures - indicated that the six interest rate increases since February of last year had led to slower growth.

In fact, the markets believe the economy has slowed so much that the Fed may have to bring back the punch. On Friday morning the futures market expected Fed Funds to sink to about 5.25 per cent by the end of the year from 6 per cent.

But signs of economic slowing have been a boon for bond market players who fear inflation will erode the value of their investments.

In the first four months of

US Treasury 30-year bond yield



the year, the yield on the benchmark 30-year Treasury dropped 59 basis points. Since the beginning of last month it has fallen 80 basis points. On Friday, after news of a 101,000 fall in non-farm jobs, all but the 10-year note and the long bond ended the week with yields below the federal funds rate target rate of six per cent.

The rally in the bond market in May has brought out a fair share of sceptics who believe that at such yields bonds have become too expensive.

simply because expectations have gotten so high."

But he is bullish in the long term that both cyclical and secular factors may add fuel to the rally. For one thing he says, "yield-chasing behaviour" by those who have missed part of the rally should add liquidity to the market.

Many pension and mutual fund managers are still rushing to catch up with the soaring market. According to Lipper Analytical only about half of general US government bond funds matched or outperformed the cumulative returns for Lipper's benchmark index from November 30 to May 25.

Mr John Lipsky and Mr Robert DiClemente of Salomon Brothers believe under-invested players could push long-bond yields down as much as 25 basis points, in spite of the market having discounted a great deal of economic slowing.

Also trailing the market are investors in instruments that can be redeemed before maturity, such as mortgage-backed securities. As yields have dropped, so have the maturities of their holdings, meaning

investors have had to scurry into longer-term Treasuries to maintain long durations in their portfolios.

"There was an entire group of accounts that were effectively short the market," says the head of the government bond desk at a major Wall Street investment bank.

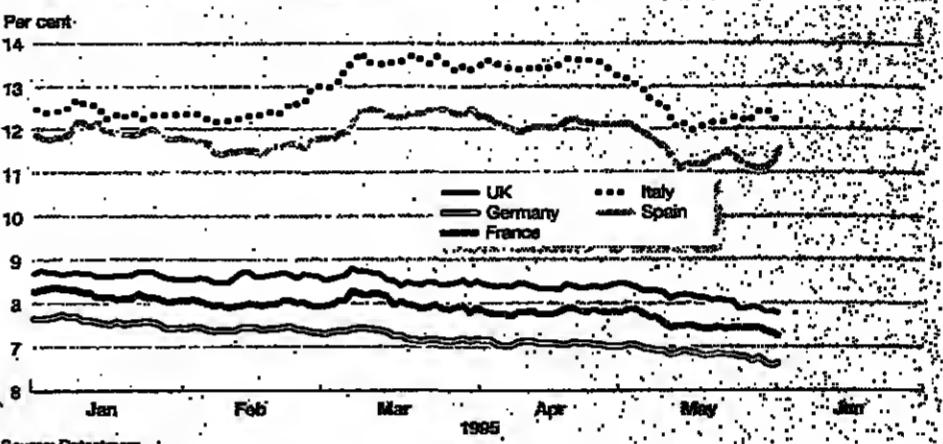
"They've spent the first five months of this year trying to get back to even."

In the longer term, political changes in Washington may also have an impact on the markets. Hovering somewhere in the mix of information driving the bond market has been increasingly serious talk about balancing the budget.

Also, somewhere off the centre of the bond market's radar screens has been the gradual increase in personal savings from about \$150bn in the early 1990s to about \$285bn now, says Mr Stephen Sliifer of Lehman Brothers.

The combination of a lower deficit and higher personal savings might be enough to drive the long bond yield at least another quarter of a percentage point lower, he says.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	UK
Discount	5.25	1.00	4.00	6.40	7.25
Overnight	5.25	1.25	4.44	7.50	7.43
Three month	5.25	1.05	4.52	7.50	7.43
One year	5.47	1.30	4.51	8.00	7.61
Five year	5.74	2.02	5.80	8.85	7.45
Ten year	6.05	2.85	6.55	9.67	7.70

(1) Discount-Rate (2) Libor-Euro. Source: Reuters

US TREASURY BOND FUTURES (CST) \$100,000 32nds of 100%

	Open	Settled price	Change	High	Low	Settled vol.	Open int.
Jul	113-15	114-28	+1-00	116-12	113-15	58,352	161,921
Sep	113-13	114-16	+1-01	116-00	113-03	46,886	200,922
Dec	113-00	114-00	+1-00	115-10	112-27	52,497	171,395

Settlement

Isma moves to dampen volatility

The risks facing traders in the euromarkets have been reduced following the introduction last week of a shorter settlement period for eurobonds, convertible and some other cross-border trades. Eurobond dealers are now settling transactions within three working days rather than seven calendar days following the introduction of the new system - dubbed T+3 - on June 1.

The long-expected change coincided with the announcement of other measures designed to streamline cross-border trade and settlement at the annual conference of the International Securities Market Association in Lisbon.

Faster settlement should reduce the impact of bank failures on the financial system, helping to isolate risks and dampen volatility.

Indeed, the benefits seem so clear it seems surprising change has taken so long to materialise. The Group of Thirty Washington-based think tank proposed more rapid settlement procedures more than five years ago, in the wake of the 1987 stock market crash.

However Isma - the eurobond traders association and regulator - has moved relatively quickly compared with some other regulators.

Although most of the bigger government bond markets have shorter settlement periods - either T+1 or T+2 in the main government bond markets, and the regulatory authorities in many countries are now only beginning to accelerate settlement for corporate bond and equities trading.

The authorities in Austria, Belgium, France, Germany, Italy, Poland, Switzerland, Finland, Netherlands and Sweden announced the introduction of T+3 settlement for domestic bonds last week.

In the US, the Securities and Exchange Commission will shortly introduce T+3 settlement - compared with its current T+6 - for domestic equities and bonds and in the UK the stock exchange introduced a rolling settlement system for the first time last year, initially fixing a 10-day settlement period which is shortly to be reduced to five days.

Elsewhere, the Emerging Markets Traders Association, which links dealers in the market for the Brady bonds issued by Latin American and other developing countries, has also recently announced moves to adopt three-day settlement.

The euromarket is more receptive to change than five years ago. For one thing, the increased volumes and greater volatility of financial markets have underlined the benefits of quicker settlement.

At the same time, the development of credit facilities by Euroclear and Cetel, Europe's two main euromarket clearing houses, makes it easier for traders to finance positions in order to comply with tighter settlement requirements.

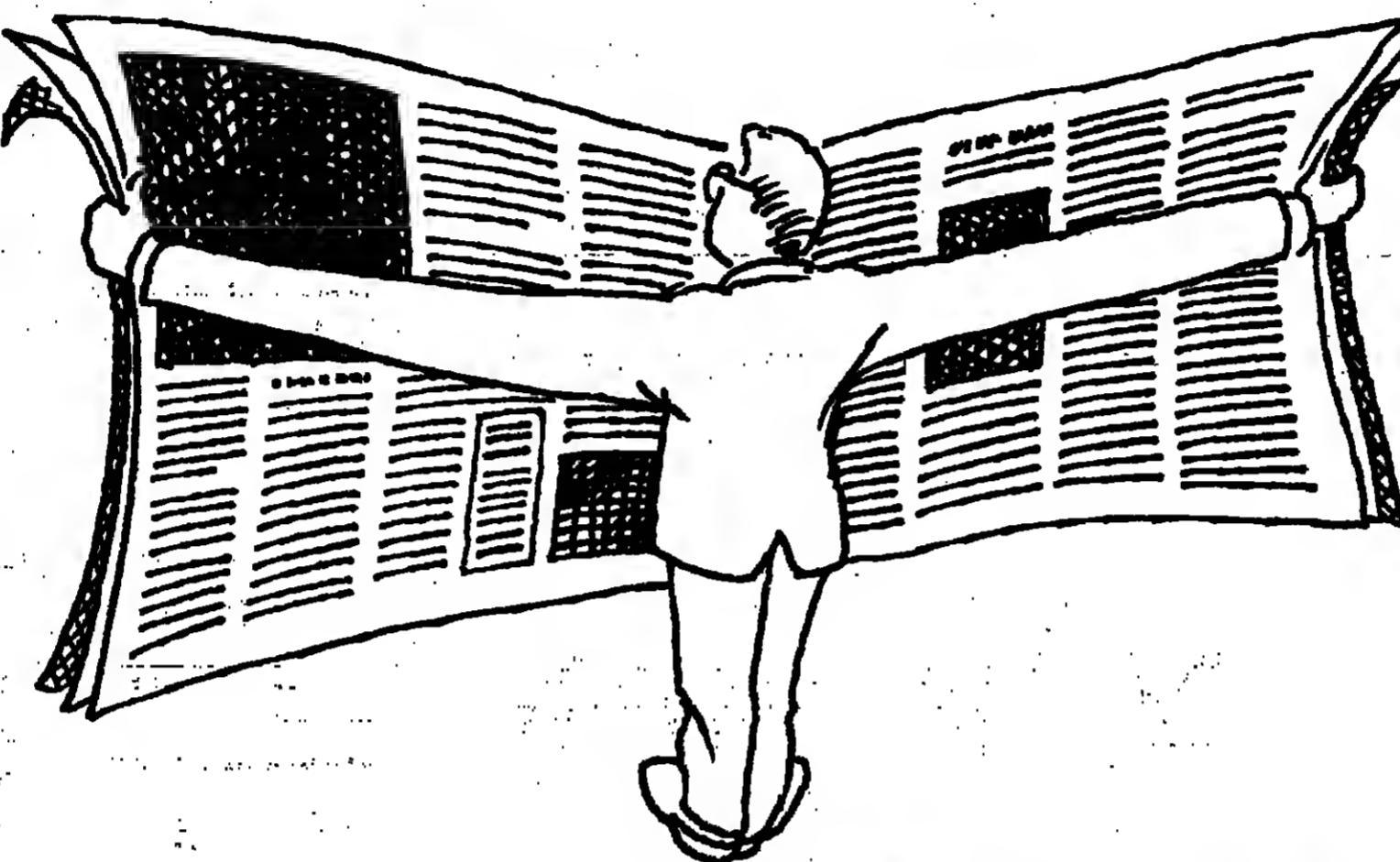
And over the last five years repo markets in most government bonds have also grown rapidly, allowing dealers to borrow stock with relative ease.

Opposition within Isma from smaller, mainly Benelux country brokers appears to have evaporated. For tax reasons, small retail investors prefer to retain physical possession of their bonds, which could complicate more rapid settlement, and opposition from Benelux retail-oriented brokers surfaced at last year's Isma conference.

Mr John Dowsett, chairman of the Isma group that worked on the change, says the issue is a "storm in a teacup" and settlement can be extended if both parties to a trade agree.

The issue now for Isma is how quickly T+3 can become T+2 and T+1. It recognises that the trend towards faster settlement is

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PART OF THE FINANCIAL TIMES GROUP

WORLD STOCK MARKETS

EUROPE												ASIA/PACIFIC												AMERICA												
AUSTRIA (Jun 2 / Sch)						FRANCE (Jun 2 / Frs)						GERMANY (Jun 2 / Dm)						HONG KONG (Jun 1 / HK\$)						JAPAN (Jun 1 / Yen)						SOUTH KOREA (Jun 2 / Won)						
Aut ¹²⁵	1,725	+26	1,095	1,725	2.5	Aut ¹²⁵	178,45	+50,110	140	2.5	Aut ¹²⁵	262	-14	27,725	246,30	2.5	Aut ¹²⁵	315	-1,50	322,250	2.7	Aut ¹²⁵	501	-14	320,50	2.5	Aut ¹²⁵	688	+10	320,50	2.5	Aut ¹²⁵	878	+10	320,50	2.5
Aut ¹²⁵	611	-	882	611	2.5	Aut ¹²⁵	40,795	-10,700	700	2.5	Aut ¹²⁵	187,50	-14	19,725	160,15	2.5	Aut ¹²⁵	100,50	+5	190,50	2.5	Aut ¹²⁵	458	+10	190,50	2.5	Aut ¹²⁵	645	+10	190,50	2.5					
Aut ¹²⁵	225	+3	1,000	225	2.5	Aut ¹²⁵	40,795	-20,100	340	4.5	Aut ¹²⁵	187,50	-14	19,725	160,15	2.5	Aut ¹²⁵	100,50	+5	190,50	2.5	Aut ¹²⁵	458	+10	190,50	2.5	Aut ¹²⁵	645	+10	190,50	2.5					
Aut ¹²⁵	225	-1	850	225	2.5	Aut ¹²⁵	40,795	-20,100	340	4.5	Aut ¹²⁵	187,50	-14	19,725	160,15	2.5	Aut ¹²⁵	100,50	+5	190,50	2.5	Aut ¹²⁵	458	+10	190,50	2.5	Aut ¹²⁵	645	+10	190,50	2.5					
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Aut ¹²⁵	225	-1	850	225	2.5	Aut ¹²⁵	40,795	-20,100	340	4.5	Aut ¹²⁵	187,50	-14	19,725	160,15	2.5	Aut ¹²⁵	100,50	+5	190,50	2.5	Aut ¹²⁵	458	+10	190,50	2.5	Aut ¹²⁵	645	+10	190,50	2.5					
Aut ¹²⁵	225	-1	850	225	2.5	Aut ¹²⁵	40,795	-20,100	340	4.5	Aut ¹²⁵	187,50	-14	19,725	160,15	2.5	Aut ¹²⁵	100,50	+5	190,50																

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Notes	Wk's	Dr	Div	Dividends	Last	City	Notes	Wk's	Dr	Div	Dividends	Last	City	Notes	
Bankers Soc Cm 2nd	1821	1	1	1	14.1	1787	Termic	14	1	1	1	14.1	4788	Deutsche A.	1
Banks & Co - Cm 1st	1821	1	1	1	12.1	2081	Trade Pknd	14	1	1	1	12.1	2082	AFRICA R.	1
Barclays	225	1	1	1	1.1	2121	Trans	14	1	1	1	1.1	2083	Anglo Am	1
Chase Man	225	1	1	1	1.1	2121	Trans	14	1	1	1	1.1	2084	Anglo Care	1
Chemins & Nat	215	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2085	Anglo Care	1
Herbison & Nat	215	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2086	Anglo Care	1
Hiscox & Pk	720	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2087	Anglo Care	1
Anglo & Standard	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2088	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2089	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2090	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2091	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2092	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2093	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2094	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2095	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2096	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2097	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2098	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2099	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2100	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2101	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2102	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2103	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2104	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2105	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2106	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2107	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2108	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2109	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2110	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2111	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2112	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2113	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2114	Anglo Care	1
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Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2116	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2117	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2118	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2119	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2120	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2121	Anglo Care	1
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Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2126	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2127	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2128	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2129	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2130	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2131	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2132	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2133	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2134	Anglo Care	1
Barclays	1821	1	1	1	1.1	2081	Trans	14	1	1	1	1.1	2135	Anglo Care	1
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FT GUIDE TO THE WEEK

MONDAY 5

Kohl meets Hussein, Rabin

Germany's Chancellor Helmut Kohl will meet King Hussein of Jordan and Yitzhak Rabin, the prime minister of Israel on the Israeli-Jordanian border. The visit, part of a six-day trip by Mr Kohl to the Middle East, and his first for 12 years, is aimed at publicly supporting the peace initiative. In particular, Germany will help finance a water project in the new territories now under the Palestinian Liberation Organisation.

Brittan in Japan

European trade commissioner Sir Leon Brittan visits Japan to exchange views on EU-Japan ties and global issues with the prime minister Tomiichi Murayama. It will be Sir Leon's first visit since January when he was put in charge of Japanese economic and political affairs. He is due to hold talks with the foreign minister Yohi Kono and trade minister Ryutaro Hashimoto and is expected to discuss the country's bitter car trade dispute with the US and stress the need for the Japanese to provide greater market access. He will be accompanied by a delegation of European industrialists representing 13 companies who will hold talks with their Japanese counterparts during the visit.

Hungary's PM visits US

Hungary's prime minister, Gyula Horn, visits the US for the first time since taking office last July. He is due to meet President Bill Clinton and representatives of the World Bank and International Monetary Fund. Hungary is trying to secure new loans from the two institutions to support its transition to a market economy. Mr Horn hopes to encourage more US investment and is due to discuss privatisation and business opportunities in Hungary with leading US corporations.

Likud party faces split

The central committee of Israel's right-wing opposition Likud party is expected to meet to decide the system of primaries for parliamentary candidates for next November's elections. Barring any last minute compromise, the convening of the central committee is likely to provoke an immediate split in the party with a rival faction to Likud leader Benjamin Netanyahu announcing the formation of a new political party which will severely damage Likud's electoral prospects.

World Environment Day

To mark World Environment Day, 19 political and scientific leaders hold the inaugural meeting in Geneva of an independent World Commission on Forests and Sustainable Development. The commission, co-chaired by Indonesia and Sweden, will look at ways of supporting forest conservation and reconciling it with development needs.

Other economic news

Wednesday: May unemployment figures for western Germany are expected to show the adverse effects of D-Mark strength. Although the consensus forecast is for no change, some analysts predict a further jobless increase to follow April's 13,000 rise. However, unemployment is expected to have fallen in eastern Germany last month.

Thursday: UK manufacturing figures are expected to show steady year-on-year growth of 2.7 per cent in April while a rise in energy output should give an extra boost to overall industrial production.

Friday: Financial markets will be looking for a lower monthly increase in US producer prices in May after sharp rises in April caused by higher energy prices and floods in California. Because prices fell a year ago, annual producer price inflation could rise.

During the week: German industrial production figures are expected to show a rebound in February after last month's provisional report of a sharp drop in output in January. Analysts expect revised January figures will make more difficult any evaluation of the D-Mark's strength on German economic activity.



On Wednesday Australia's prime minister, Paul Keating, reveals constitutional proposals that will put the country on the road to becoming a republic

Drive against pollution



In London, local transport minister Steven Norris launches a nationwide campaign promoting alternatives to private car use. The Don't Choke Britain campaign, mounted by local authority associations, urges drivers to leave their cars at home one day in five throughout June and walk, cycle or use public transport in a bid to lessen air pollution and improve congestion.

Holidays

Austria, Belgium, Central African Republic, Denmark, France, Germany, Hungary, Irish Republic, Ivory Coast, Luxembourg, Netherlands, New Zealand, Norway, Spain (Barcelona), Sweden, Switzerland.

TUESDAY 6

ILO holds talks in Geneva

The annual conference of the International Labour Organisation opens in Geneva (to 23). overshadowing the meeting will be the ILO's budget problems, including the threat by the US Congress to withdraw all funding. Delegates will also discuss employment issues, mine safety and health and the rights of homeworkers.

Financial crime conference

The corporate consequences of financial crime, why worldwide fraud is on the increase and crime within the derivative markets will be some of the topics

discussed at a conference at the Cafe Royal in London. Representatives of the SFO and FBI will be in attendance and speakers include Sir George Young and Labour MP Alistair Darling.

Politicians reconvene

The House of Representatives reconvenes in Washington, one day after the Senate, ready to resume its small government "revolution": slashing both the budget and regulations designed to protect health, safety and the environment; welfare reform; and the transfer of federal programmes to state control. In London, MPs reconvene after the Whitsun recess.

FT Surveys

Lebanon and Foreign Exchange

Holidays

Korea - Memorial Day.

WEDNESDAY 7

Keating unveils republic plan

Australia's prime minister, Paul Keating, is due to reveal his Labour government's model for an Australian republic - a constitutional structure which would no longer recognise the British monarch as its head. Mr Keating, who will outline the cabinet-approved structure in a televised parliamentary address, is also tipped to reveal plans for a referendum on the issue after the next federal election, which must be held by early 1996.

Clarke and George meet

The chancellor Kenneth Clarke and Eddie George, the Bank of England governor, meet to discuss monetary policy. After a

run of soft UK economic data, financial markets are no longer expecting that Mr Clarke will raise bank base rates. However, it is likely that the bank will still be concerned about the inflationary implications of sterling's recent weakness.

Boeing 777 jets off

United Airlines flies its first scheduled commercial passenger service using the new Boeing 777 "big twin" jetliner from London Heathrow to Washington. It is offering a reduced fare on the route until August 31.

Chile and Nafta

Formal negotiations to bring Chile into the North American Free Trade Agreement start today in Toronto. Nafta's three existing members, the US, Canada and Mexico, are optimistic that the talks will be wrapped up by early next year.

Taiwan's president visits US

Lee Teng-hui becomes the first president of Taiwan to visit the US since 1979, despite threats from China of "serious consequences" for the US if it failed to revoke his visa. He will not meet any administration officials but will talk to congressmen during the five day private visit which Taiwan hopes will promote its entry into the World Trade Organisation.

Finance talks in Geneva

Senior finance ministry officials meet in Geneva to discuss progress in negotiations on liberalising financial services, due to end on June 30. The talks, seen as an important first test of the new World Trade Organisation, hang in the balance, with Washington still seeking improved offers from several emerging economies in south-east Asia and Latin America.

Christopher peace initiative

US Secretary of State Warren Christopher begins five days of shuttle diplomacy in the Middle East aimed at advancing peace talks between Israel and Syria and Israeli withdrawal from the occupied Golan Heights in return for full peace with Damascus. Mr Christopher is expected to meet with the President of Egypt Hosni Mubarak, Israeli prime minister Yitzhak Rabin, Syrian president Hafez Assad and PLO chairman Yasser Arafat.

FT Surveys

FT Review of Information Technology and Armenia.

Holidays

Bahrain (to June 8).

THURSDAY 8

Voting in Ontario

Voters in Ontario go to the polls in an election which is expected to move Canada's wealthiest province sharply to the right. The present social-democratic government led by Bob Rae is headed for defeat either by the Liberals or, if the trend of the past fortnight continues, by the Progressive Conservatives.

Stubbs painting up for sale

One of the most important British paintings to appear on the market in recent years is offered at Christie's in London. George Stubbs's "Portrait of the Royal Tiger" is expected to sell for up to £5m. It depicts a reclining Royal Bengal tiger, a gift from Clive of India to the 4th Duke of Marlborough who kept it at Blenheim Palace.

Discovery set for take-off

The space shuttle Discovery takes off on an eight-day mission - woodpeckers permitting. NASA engineers have had to repair damage to the shuttle caused by woodpeckers chipping away at the external fuel tank. Scientists are trying to ward off the birds by using a plastic owl as a deterrent but if this fails the mission will be postponed to August.

Cricket

The first match in the Cornhill Insurance four-day Test between England and the West Indies takes place at Headington.

Holidays

Lebanon.

FRIDAY 9

Tankan business outlook

The Bank of Japan releases its quarterly Tankan business outlook. This will be watched closely for any sign that the economy might be slipping back into recession, under the double pressure of the yen's rise and the blow to consumer confidence inflicted by a series of disasters since the turn of the year.

EU leaders meet in Paris

European Union leaders attend a working dinner at the invitation of French president Jacques Chirac. The meeting will enable the new president to consult EU colleagues prior to his US visit on June 14 and the G7 summit in Halifax, Canada the following day. The prime minister John Major will discuss the crisis in Bosnia with Mr Chirac at a breakfast meeting tomorrow.

FT Surveys

Relocation in the UK and Indonesia.

SATURDAY 10

Paris air show

The "bat-wing" B2 stealth bomber will be among US military planes making their debut at the 41st Paris Air Show at Le Bourget (to June 18). The US boycotted the 1993 show over charges of French espionage but returns as the biggest exhibitor at the biennial show. In the civil arena, Boeing's 777 twin-jet will fly in and NASA's experimental reusable spaceplane, X-31, will be on display.

Derby Day

Owner Peter Savill has opted not to run Celtic Swing in the Vodafone Derby at Epsom, which means the colt will miss the chance to avenge his head defeat by Derby favourite Pennenkamp in the Madagascan 2000 Guineas at Newmarket last month.

Holidays

Jordan, Kuwait.

SUNDAY 11

Referendums in Italy

Among 12 referendums in Italy is one voting if voters if they want private individuals to continue to be allowed to own more than one television network. Media mogul Silvio Berlusconi could be stripped of two of his three television networks if Italians vote to repeal an article of the so-called Mammì Law which allows private individuals to own more than one television network. Several other referendum issues could also affect Berlusconi's Fininvest empire.

French municipal elections

The first round of France's nationwide municipal elections gets under way. Voting today and on June 18 will provide an early indicator of the country's reaction to Jacques Chirac's programme which focuses on cutting high unemployment.

Motor racing

The world Formula One circus crosses the Atlantic for the Canadian grand prix in Montreal. The Williams team will have to improve on their pit stop strategy if their number one driver, Damon Hill, is to stop Michael Schumacher and Benetton racing away with this year's title.

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Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Apr home completions	-	\$1.43m
June 5	Japan	May trade balance, 1st 20 days	-	\$0.9bn
	UK	May MO*	0.3%	0.4%
	UK	May MO**	6%	6.2%
	Canada	1st qtr indust capacity utilisation	-	84.8%
	Australia	1st qtr net for debt	A\$168.7bn	A\$162bn
Tues	US	Apr wholesale trade	-	-1%
June 6	Japan	Apr current a/c (IMF)	\$13.2bn	\$13.9bn
	Japan	Apr trade balance (IMF)	-	\$13.3bn
	Japan	Apr foreign bond investment	-	-854bn
	Canada	Apr building permits*	-	-1%
Wed	US	Apr consumer credit	-	\$13.8bn
June 7	Germany	May unemployment, West†	0.0	13,000
	Germany	May employment, West†	0.0	-6,000
	Germany	May vacancies, West	2,500	1,000
	Germany	May short-time, West	-9,000	-18,000
	Germany	May unemployment, East	-40,000	-24,000
Thurs	US	Initial claims w/e June 3	388,000	-
June 8	UK	Apr manufacturing output*	0.5%	0.3%
	UK	Apr manufacturing output**	2.9%	3.8%
	UK	Apr industrial production*	0.4%	0.9%
	UK	Apr industrial production**	3.4%	4.9%
	Italy	Mar EU trade balance	1.03tr	-0.3tr
	Italy	Mar ex-EU trade balance	L1.9tr	1.8tr
	Canada	May help wanted index*	-	100

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Fri	US	May producer price index	0.3%	0.5%
June 9	US	Ditto, ex-food & energy	0.3%	0.3%
	US	May bank credit	-	13.9%
	US	May C&I loans	-	15.8%
	Japan	May Bank of Jpn Tankan Di, mfg	-20%	-21%
	Japan	Ditto, non-manufacturing	-29%	-29%
	Japan	1995 Tankan capital spending	-1%	-1%
	UK	Mar global visible trade	-£1bn	-£1.16bn
	Switzerland	1st qtr gross domestic product†	2%	2.3%
	Switzerland	May unemployment rate	4.2%	4.3%
	Norway	May consumer price index*	2.6%	2.6%
	Sweden	May unemployment rate	7%	7.2%
	Canada	May unemployment rate	-	9.4%
	Canada	Apr motor vehicle sales*	-	-1.7%

*month on month. †year on year. †seasonally adjusted. Statistics, courtesy MMS International.

